

**Trends in Compliance Activities
Through Fiscal Year 2002**

March 2003

Reference Number: 2003-30-078

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

March 31, 2003

MEMORANDUM FOR ACTING COMMISSIONER WENZEL

Gordon C. Milbourn III

FROM: Gordon C. Milbourn III
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Trends in Compliance Activities Through
Fiscal Year 2002 (Audit # 200330006)

This report presents the results of our review of statistical information that reflects activities of the Collection and Examination functions. The overall objective of this review was to provide statistical information requested by the Internal Revenue Service (IRS) Oversight Board and provide trend analyses of that information.

In summary, the IRS' overall Fiscal Year (FY) 2002 compliance efforts and results were mixed, but showed some continuing positive changes that started in FY 2001. Specifically, the level of compliance activities and the results obtained in many Collection areas in FY 2002 showed a continuing increase, although some measurements decreased slightly in FY 2002 after increasing in FY 2001. Even though they have not returned to pre-1998 levels, enforcement actions were higher or about the same in FY 2002 compared to the numbers in FY 2001. While enforcement revenue collected increased in FY 2002, the inventory of delinquent accounts and the total amount of uncollected liabilities have continued to grow.

The number of examinations of tax returns increased in FY 2002, but the overall percentage of tax returns examined stayed about the same due to increases in the number of tax returns filed. While there was a slight decrease in the number of examinations of individuals earning less than \$100,000, there was a larger increase in the coverage of individuals earning \$100,000 and over. The numbers and percentages of examinations of corporate and other business returns (except partnerships and very large corporations) continued to decrease or stay at about the same level. There were also slight increases in the numbers of examinations of fiduciary income, employment, and excise tax returns.

We made no recommendations in this report. However, key IRS management officials reviewed it prior to issuance.

Copies of this report are also being sent to the IRS managers affected by it. Please contact me at (202) 622-6510 if you have questions, or your staff may call Philip Shropshire, Acting Assistant Inspector General for Audit (Small Business and Corporate Programs), at (215) 516-2341.

Table of Contents

Background	Page 1
Summary of Statistical Information	Page 1
Appendix I – Detailed Objective, Scope and Methodology	Page 8
Appendix II – Major Contributors to This Report.....	Page 9
Appendix III – Report Distribution List	Page 10
Appendix IV – Glossary of Terms	Page 11
Appendix V – Detailed Charts of Statistical Information	Page 14

Trends in Compliance Activities Through Fiscal Year 2002

Background

We initiated this review of nationwide compliance statistics pertaining to examination and collection activities at the request of the Internal Revenue Service (IRS) Oversight Board. The overall objective of the review was to provide statistical information and trend analyses of that information based on our agreement with the Board. Our data analyses were done in January and February 2003 using national reports prepared by the IRS Headquarters office. The audit was performed in accordance with *Government Auditing Standards*. However, we relied on information accumulated by the IRS in established reports and did not verify its accuracy.

Much of the data included in this report is a follow-up to Treasury Inspector General for Tax Administration reports issued in May 2000,¹ September 2001,² and September 2002.³ While Appendix V shows many statistics for the past 7 years, and some for the past 15 years, the purpose of this report is to highlight the changes in compliance activities during Fiscal Year (FY) 2002.

Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to this report are listed in Appendix II. A glossary of terms used is included in Appendix IV. Detailed charts and tables referred to in the body of this report are included in Appendix V.

Summary of Statistical Information

For some time, the number of tax returns filed and the total dollars the IRS has received annually have been increasing with the growing economy. Specifically, in 15 years the number of returns filed has grown by 22 percent, from 140 million in 1987 to 171 million in 2001. From FYs 1988 to 2001, the amount of revenue received by the IRS grew from \$935 billion to \$2.1 trillion, but then fell by 5 percent

¹ *Management Advisory Report: Evaluation of Reduction in the Internal Revenue Service's Compliance Activities* (Reference Number 2000-30-075, dated May 2000).

² *Management Advisory Report: Tax Return Filing and Examination Statistics* (Reference Number 2001-30-175, dated September 2001).

³ *Management Advisory Report: Analysis of Trends in Compliance Activities Through Fiscal Year 2001* (Reference Number 2002-30-184, dated September 2002).

Trends in Compliance Activities Through Fiscal Year 2002

to \$2.0 trillion in FY 2002.⁴ (This was the first time since FY 1983 that total revenue decreased.)

For FYs 1998 to 2000, compliance activity decreased due to several factors, including budgetary constraints, the desire to provide increased customer service, and the need to implement and provide additional taxpayer protections and rights mandated by the IRS Restructuring and Reform Act of 1998 (RRA 98).⁵ In FY 2001, the IRS began to reverse some of these downward trends. In FY 2002, some of these indicators continued to increase while some fell slightly from the prior year.

Resources applied to compliance activities

With increased budgets and hiring authority, the staffing level of revenue officers in the field collection offices increased from 3,601 in FY 2000 to 3,792 in FY 2001, but then fell to 3,495 in FY 2002.⁶ Even with hiring authority, staffing in field examination programs continued to decrease because retirements and other departures exceeded the number of new employees. During FY 2002, the total number of revenue agents and tax auditors/tax compliance officers decreased again, from 13,226 to 13,046, for a total loss of nearly 6,000 examiners since the beginning of FY 1996.⁷ Furthermore, replacing experienced employees with new hires results in less examination time available because of the need for training and coaching the new people and the need to work a greater mix of less complex cases until the new employees gain experience. In spite of this, the Examination and Collection functions both increased the percentage of time categorized as direct time spent examining tax returns or collecting taxes, to 51 percent and 57 percent, respectively.⁸ This included a

⁴ See Appendix V, Figure 1.

⁵ IRS Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

⁶ See Appendix V, Figure 5.

⁷ See Appendix V, Figure 4.

⁸ See Appendix V, Figure 7.

Trends in Compliance Activities Through Fiscal Year 2002

significant reduction in the amount of time detailed to Customer Service activities during FYs 2001 and 2002.⁹

Collection activities

While collection statistics have not returned to their pre-1998 levels, most of the downward trends were reversed in the last 2 years. Enforcement revenue collected increased slightly in FY 2000 to \$33.8 billion, stayed about the same in FY 2001, and increased to \$34.09 billion in FY 2002.¹⁰ The use of collection enforcement tools including liens, levies, and seizures all increased substantially from FY 2000 to FY 2001 and again in FY 2002:¹¹

	FY 2000	FY 2001	FY 2002
Liens	287,517	428,376	491,709
Levies¹²	219,778	674,080	1,283,742
Seizures¹²	74	234	296

The average dollars collected for each staff year in the Collection Field function increased for the third consecutive year, to about \$362,000 in FY 2002, returning from the lows reached in FYs 1999 and 2000 to nearly the level of FY 1997.¹³ The number of delinquent accounts closed each year and the number closed by full payment had both been steadily decreasing since FY 1997, but they increased slightly in FY 2001 and then decreased slightly again in FY 2002.¹⁴

Since FY 1997, the gap had been widening between the number of new delinquent accounts received and the number closed. In FY 2001, that gap was closed slightly, but it widened again in FY 2002.¹⁵ In addition, the number of delinquent accounts and investigations for unfiled tax

⁹ See Appendix V, Figure 6.

¹⁰ See Appendix V, Figures 2 and 3.

¹¹ See Appendix V, Figures 15, 16, and 17.

¹² The number of levies was adjusted due to omissions in the automated reports that showed 447,201 total levies in FY 2001 and 667,765 in FY 2002. The seizure numbers are based on a manual reconciliation the IRS performed to determine the actual number of seizures made rather than the automated reports, which show slightly higher numbers.

¹³ See Appendix V, Figure 8.

¹⁴ See Appendix V, Figures 13 and 14.

¹⁵ See Appendix V, Figure 11.

Trends in Compliance Activities Through Fiscal Year 2002

returns that the IRS is unable to work continued to grow. During FY 2001, management removed approximately 7.1 million unfiled return investigations and 1.7 million unpaid tax periods from the Collection inventory to eliminate potentially less productive cases. During FY 2002, another approximately 1.7 million unfiled return investigations and 1.6 million unpaid tax periods were removed.¹⁶ These cases may never be worked. In addition, other cases are placed in the “Queue,” which is an inactive inventory of cases that may or may not be worked in the future. At the end of FY 2002, the unassigned Queue inventory contained approximately 515,000 taxpayers with 1.7 million unpaid tax periods totaling \$20.3 billion, and approximately 767,000 taxpayers with 2.5 million unfiled tax returns.¹⁷

Examination activities

When analyzing Examination coverage rates, it is important to recognize differences in the types of contacts that are counted in Examination statistics. Examinations range from an IRS notice asking for clarification of a single tax return item that appears to be incorrect, to a full face-to-face interview and review of the taxpayer’s records. Face-to-face examinations are generally more comprehensive and time-consuming for the IRS and the taxpayers, and they typically result in higher dollar adjustments to the tax amount. Thus, caution should be used when combining statistics from the various Examination programs and tax classes into overall Examination rates. In addition, the IRS uses several computer-matching and automated error-checking routines in the computing centers to check the accuracy of tax returns. Many of these result in adjustments to tax liabilities but are not included in the traditional “audit rates” and are not generally reported separately as enforcement efforts. Because the General Accounting Office (GAO) just issued a report in January 2003¹⁸ recommending the IRS expand its

¹⁶ See Appendix V, Figure 10.

¹⁷ See Appendix V, Figures 9 and 12.

¹⁸ *Tax Administration: IRS Should Continue to Expand Reporting on Its Enforcement Efforts* (GAO-03-378, January 2003).

Trends in Compliance Activities Through Fiscal Year 2002

reporting on these other compliance efforts, we did not include them in our analyses of this year's data.

The overall percentage of tax returns examined¹⁹ increased slightly in FY 2001 and stayed about the same in FY 2002, even with an increase of almost 12,000 examinations in FY 2002.²⁰ The increase in FY 2001 was primarily due to increases in the number of correspondence examinations of individual income tax returns, mainly for verification of the Earned Income Tax Credit. The increase in the overall number of returns examined in FY 2002 was primarily in field office examinations of individual income tax returns. The numbers and percentages of examinations of corporate and other business returns (except partnerships and very large corporations) continued to decrease or stay about the same level. There were also continuing decreases in the numbers of examinations of estate and gift tax returns. However, there were slight increases in the numbers of examinations of fiduciary income, employment, and excise tax returns.²¹

Individual Income Taxes – Overall, the number of examinations of all types of individual income tax returns had been decreasing from FY 1997 through FY 2000. However, the downward trend was reversed in FYs 2001 and 2002, when the number of examinations in most categories increased slightly from the prior years:

- The number of individual income tax returns examined increased from 618,000 in FY 2000 to 732,000 in FY 2001 and to 744,000 in FY 2002,²² with approximately 543,000 of those examined in FY 2002 done by correspondence.
- The number of examinations of individual returns with incomes under \$100,000 increased from 518,218 in FY 2000 to 640,206 in FY 2001, but then fell to 631,618 in FY 2002, with 495,344

¹⁹ Percentage of Examination coverage has traditionally been calculated by the IRS by dividing the number of returns examined in the current fiscal year by the number of returns filed in the preceding calendar year.

²⁰ See Appendix V, Figure 18.

²¹ See Appendix V, Figure 41.

²² See Appendix V, Figure 19.

Trends in Compliance Activities Through Fiscal Year 2002

(78 percent) of those in FY 2002 done by correspondence.²³

- The number of examinations of individual returns with income of \$100,000 or more decreased from 99,547 in FY 2000 to 91,550 in FY 2001, but then increased to 112,263 in FY 2002, with 47,946 (43 percent) of those done by correspondence.²⁴

Corporate Income Taxes – The number of examinations of Corporation and S Corporation returns has continued to decrease. The total number of U.S. Corporation Income Tax Returns (Form 1120) examined decreased 18 percent in FY 2001 and another 2 percent in FY 2002, from 43,383 in FY 2000 to 35,056 in FY 2002.²⁵ The exception to this downward trend was in the examinations of very large corporations with assets over \$250 million and in corporate returns filed with no balance sheets. The number of examinations of corporations with assets over \$250 million increased in FYs 2001 and 2002, from 3,080 in FY 2000 to 3,749 in FY 2002. The number of examinations of corporate returns filed without balance sheets increased from 1,923 in FY 2000 to 1,935 in FY 2001 and to 2,729 in FY 2002. The number of partnership returns examined continued its decline in FY 2001 but recovered slightly in FY 2002, going from 6,539 in FY 2000 to 5,070 in FY 2001, and to 5,543 in FY 2002.²⁶

Other Tax Types (Fiduciary, Employment, Excise, Estate, and Gift Taxes) – The overall number of examinations in these 5 classes also continued to decline, falling from 47,807 in FY 2000 to 42,114 in FY 2001 to 41,934 in FY 2002. However, there were increases in FY 2002 in the

²³ See Appendix V, Figures 19 and 20.

²⁴ See Appendix V, Figures 19 and 20.

²⁵ See Appendix V, Figures 29 to 34 for coverage by size of corporation.

²⁶ See Appendix V, Figure 35.

Trends in Compliance Activities Through Fiscal Year 2002

number of examinations of fiduciary, employment, and excise tax returns.²⁷

²⁷ See Appendix V, Figures 36 to 41 for details.

Detailed Objective, Scope, and Methodology

The overall objective of this review was to provide agreed-upon statistical information and trend analyses of the nationwide compliance statistics pertaining to examination and collection activities requested by the Internal Revenue Service (IRS) Oversight Board.

To accomplish our objective, we analyzed the IRS' management information reports to determine the trends and changes in the major areas of compliance. We relied on information accumulated by the IRS in established reports and did not verify its accuracy. The major issues we focused on included:

- Enforcement Revenue and Gross Accounts Receivable.
- Collection and Examination staffing.
- Collection and Examination direct time.
- Collection delinquent account inventories and unfiled return investigations.
- Collection enforcement actions (liens, levies, and seizures.)
- Examination coverage of individual and business tax returns compared to the number of returns filed in each category.

Major Contributors to This Report

Philip Shropshire, Acting Assistant Inspector General for Audit (Small Business and Corporate Programs)

Parker F. Pearson, Director

Amy L. Coleman, Audit Manager

Joseph F. Cooney, Senior Auditor

Dale E. Schulz, Senior Auditor

Report Distribution List

Commissioner, Large and Mid-Size Business Division LM
Commissioner, Small Business/Self-Employed Division S
Commissioner, Wage and Investment Division W
Deputy Commissioner, Large and Mid-Size Business Division LM
Deputy Commissioner, Small Business/Self-Employed Division S
Deputy Commissioner, Wage and Investment Division W
Director, Compliance, Small Business/Self-Employed Division S:C
Director, Compliance, Wage and Investment Division W:CP
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:AR:M
Audit Liaisons:
 Commissioner, Large and Mid-Size Business Division LM
 Commissioner, Small Business/Self-Employed Division S
 Commissioner, Wage and Investment Division W

Glossary of Terms

ACS – The Automated Collection System (ACS) is a telephone contact system where telephone assistors collect unpaid taxes and secure tax returns from delinquent taxpayers who have not complied with previous notices.

Balance Sheet – A statement of the financial assets and liabilities of a business at a given date filed with corporate income tax returns; used by the Internal Revenue Service (IRS) to group businesses by the size of their assets.

Cff – The Collection Field function (Cff) is the unit in the Area Offices consisting of revenue officers who handle personal contacts with taxpayers to collect delinquent accounts or secure unfiled returns.

Currently Not Collectible (CNC) – The taxpayer still has an outstanding balance due, but it was removed from active collection inventory. Accounts are still subject to refund offsets and may be reactivated under certain conditions.

CNC closing code 39 (see also “shelved accounts”) – These are cases closed as excess inventory.

Corporate Income Tax Returns – United States (U.S.) Corporation Income Tax Returns (Form 1120) are returns used by corporations to report the corporate income tax.

Employment Tax Returns – Various Form 940 return series (primarily Form 940 and Form 941) filed by businesses to report things such as Employer’s Federal Unemployment Taxes and Federal Taxes Withheld.

Enforcement revenue – This is any tax, penalty, or interest received from a taxpayer as a result of an IRS enforcement action (usually an examination or a collection action).

Estate Tax Return – U.S. Estate Tax Return (Form 706) is the form to be filed on certain estates of a deceased person.

Examination (Face-to-Face) – Field audits of individuals, partnerships, and corporations that occur either at the taxpayer’s place of business or through interviews at an IRS office.

Excise Tax Return – Quarterly Federal Excise Tax Return (Form 720) is used to report and pay excise taxes on a quarterly basis.

Trends in Compliance Activities Through Fiscal Year 2002

Fiduciary Tax Return – Income tax returns filed for estates and trusts.

Filing Season – The period from January through mid-April when most individual income tax returns are filed.

Gift Tax Return – U.S. Gift Tax Return (Form 709) is used to report transfers subject to the Federal gift taxes and to figure the tax due on those transfers.

Gross accounts receivable – Includes all unpaid tax, with accrued penalties and interest, on taxpayers' delinquent accounts.

Individual Income Tax Returns – U.S. Individual Income Tax Returns (Form 1040 series) are annual income tax returns filed by citizens or residents of the U.S.

Partnership Returns – U.S. Return of Partnership Income (Form 1065) is used to report the income of domestic partnerships.

Queue – An automated holding file for unassigned inventory of lower priority delinquent cases that the Collection function does not have enough resources to immediately assign for contact.

Revenue Agent – Employees in the Examination function that conduct face-to-face examinations of more complex returns such as businesses, partnerships, corporations, and specialty taxes, e.g., excise tax returns.

Revenue Officer – Employees in the CFf who attempt to contact taxpayers and resolve collection matters that have not been resolved through notices sent by the Compliance sites at the IRS Campuses (formerly known as service centers) or the ACS.

S Corporation Tax Return – U.S. Income Tax Return for an S Corporation (Form 1120S) is a return filed by a qualifying small business corporation.

SCCB – The Service Center Collection Branch mails the balance due and return delinquency notices to taxpayers and analyzes and responds to taxpayer correspondence.

Shelved or surveyed accounts – These are delinquent unpaid accounts or investigations of unfiled returns that have been taken out of Collection inventory because they are lower priority.

TDA – Taxpayer Delinquent Account is a balance due account of a taxpayer.

TDI – Taxpayer Delinquency Investigation is an unfiled tax return for a taxpayer.

TGR – Total Gross Receipts are the categories used for Individual Income Tax Returns with business (Schedule C) or farm (Schedule F) income based on the total receipts reported.

Trends in Compliance Activities Through Fiscal Year 2002

Tax Auditor – Employees in the Examination function that conduct mostly examinations of individual taxpayers through interviews at IRS field offices. The position title was changed in 2002 to tax compliance officer.

Detailed Charts of Statistical Information

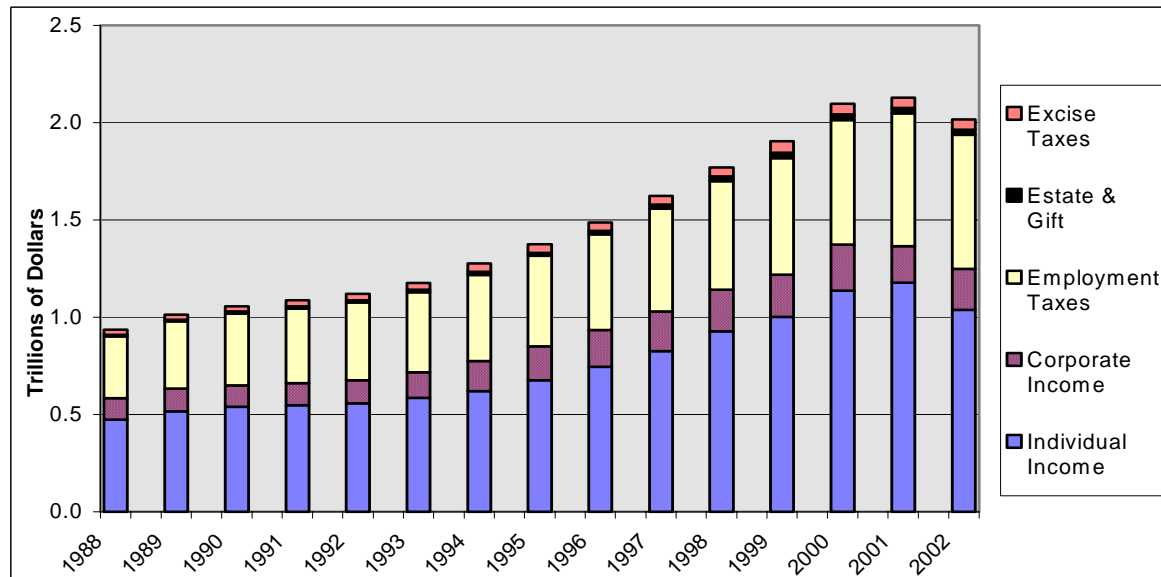
Figure 1 – Internal Revenue Service Gross Collections, by Type of Tax	Page 16
Figure 2 – Change in Enforcement Revenue and Gross Accounts Receivable Since FY 1996	Page 16
Figure 3 – Amounts of Enforcement Revenue Collected Compared to Growth in Gross Accounts Receivable.....	Page 17
Figure 4 – Examination Staffing at the End of Each Fiscal Year	Page 17
Figure 5 – Collection Revenue Officer Staffing.....	Page 18
Figure 6 – Staff Years Detailed to Customer Service	Page 18
Figure 7 – Changes in Direct Time Percentages	Page 19
Figure 8 – Average Dollars Collected per Staff Year in the Collection Field function.....	Page 19
Figure 9 – Delinquent Accounts in the Queue	Page 20
Figure 10 – Delinquent Accounts and Unfiled Return Investigations Shelved or Surveyed Each Year	Page 20
Figure 11 – Gap Between New Delinquent Accounts and Account Closures	Page 21
Figure 12 – Number of Taxpayers and Amounts Owed in the Queue.....	Page 21
Figure 13 – Number of Delinquent Accounts Closed Each Year, Not Including Shelved Accounts.....	Page 22
Figure 14 – Number of Delinquent Accounts Closed by Full Payment.....	Page 22
Figure 15 – Liens Filed by the ACS and the CFf	Page 23
Figure 16 – Levies Issued by the ACS and the CFf.....	Page 23
Figure 17 – Number of Seizures Made Each Year	Page 24
Figure 18 – Examination Coverage of All Tax Returns – Percentage Change From FY 1988 to FY 2002	Page 24
Figure 19 – Number of Individual Income Tax Returns (Forms 1040) Examined Face-to-Face or Through Correspondence	Page 25
Figure 20 – Percentage of Forms 1040 Examined Face-to-Face or Through Correspondence	Page 25
Figure 21 – Number of Forms 1040 Examined by Compliance Center Correspondence.....	Page 26

Trends in Compliance Activities Through Fiscal Year 2002

Figure 22 – Number of Forms 1040 Examined by Field Offices.....	Page 26
Figure 23 – Percentage of Forms 1040 Examined	Page 27
Figure 24 – Percentage Examined – Forms 1040 With No Business or Farm Income....	Page 27
Figure 25 – Examination Coverage of Non-business Forms 1040 Under \$100,000	Page 28
Figure 26 – Examination Coverage of Non-business Forms 1040 Over \$100,000	Page 28
Figure 27 – Examination Coverage of Forms 1040 With Business Income (Excluding Farms)	Page 29
Figure 28 – Examination Coverage of Forms 1040 With Farm Income.....	Page 29
Figure 29 – Examination Coverage of All Corporate Income Tax Returns - Percentage Change From FY 1988 to FY 2002	Page 30
Figure 30 – Percentage of Corporate Income Tax Returns Examined - Corporations With Assets Under \$5 Million	Page 30
Figure 31 – Percentage of Corporate Income Tax Returns Examined - Corporations With Assets Over \$5 Million	Page 31
Figure 32 – Examination Coverage of Corporations With Assets Under \$10 Million	Page 31
Figure 33 – Examination Coverage of Corporations With Assets Over \$10 Million	Page 32
Figure 34 – Examination Coverage of S Corporations (Form 1120S)	Page 32
Figure 35 – Examination Coverage of Partnership Income Tax Returns	Page 33
Figure 36 – Examination Coverage of Fiduciary Income Tax Returns	Page 33
Figure 37 – Examination Coverage of Employment Tax Returns.....	Page 34
Figure 38 – Examination Coverage of Excise Tax Returns	Page 34
Figure 39 – Examination Coverage of Estate Tax Returns	Page 35
Figure 40 – Examination Coverage of Gift Tax Returns	Page 35
Figure 41 – Numbers and Percentages of Business Returns Examined.....	Page 36
Figure 42 – Numbers of Individual Income Tax Returns Examined Through Field or Correspondence Examinations and Compliance Center Contacts.....	Page 37

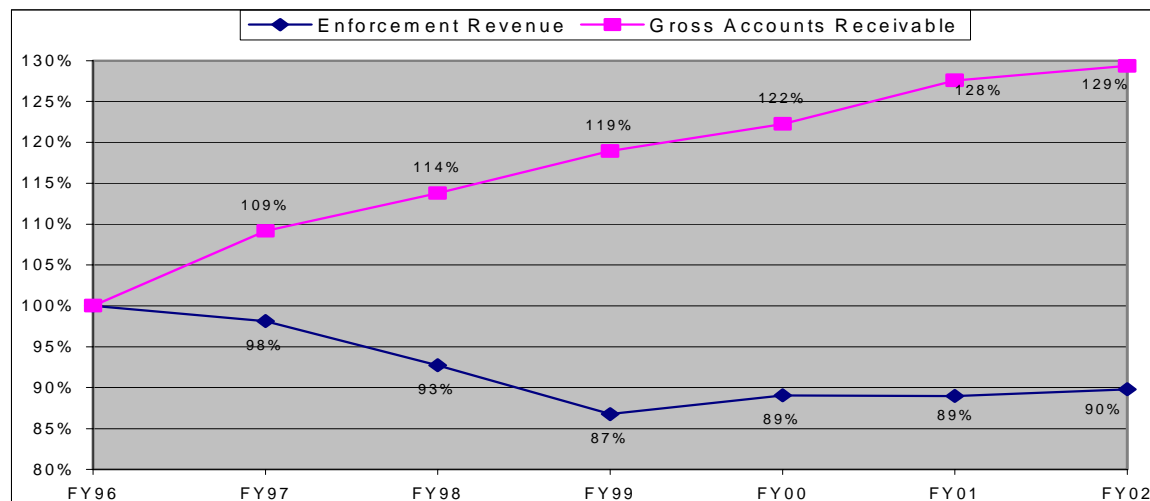
Trends in Compliance Activities Through Fiscal Year 2002

Figure 1. Internal Revenue Service (IRS) Gross Collections, by Type of Tax. Gross tax collections by the IRS grew from \$935 billion in Fiscal Year (FY) 1988 to \$2.1 trillion in FY 2001 but decreased in FY 2002, due to a 12 percent (\$140 billion) drop in individual income taxes paid. Individual income taxes make up about one-half of the total collections while employment taxes account for about one-third.



Source: Treasury Inspector General for Tax Administration (TIGTA) Analysis of IRS Data Book Information.

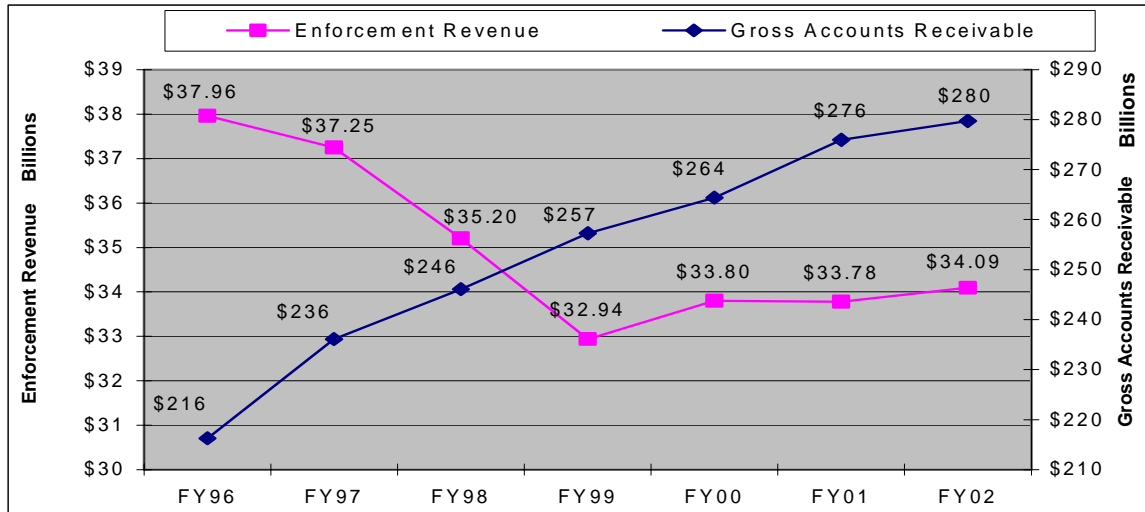
Figure 2. Change in Enforcement Revenue and Gross Accounts Receivable Since FY 1996. During the last 3 fiscal years, the IRS reversed the decline in enforcement revenue, but the gross accounts receivable has continued to grow, although not as much in FY 2002 as in the past several years.



Source: Enforcement Revenue Information System and Chief Financial Officer (CFO) Financial Report.

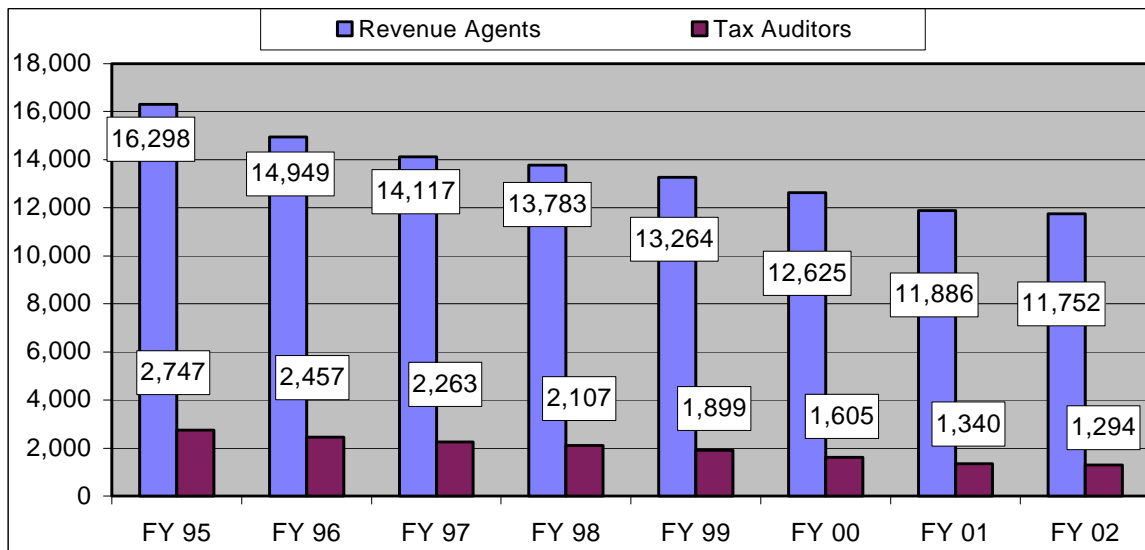
Trends in Compliance Activities Through Fiscal Year 2002

Figure 3. Amounts of Enforcement Revenue Collected Compared to Growth in Gross Accounts Receivable. Although gross accounts receivable has continued to grow, the enforcement revenue decreased from FY 1996 to FY 1999, but then increased slightly in FY 2000 and again in FY 2002.



Source: Enforcement Revenue Information System and CFO Financial Reports.

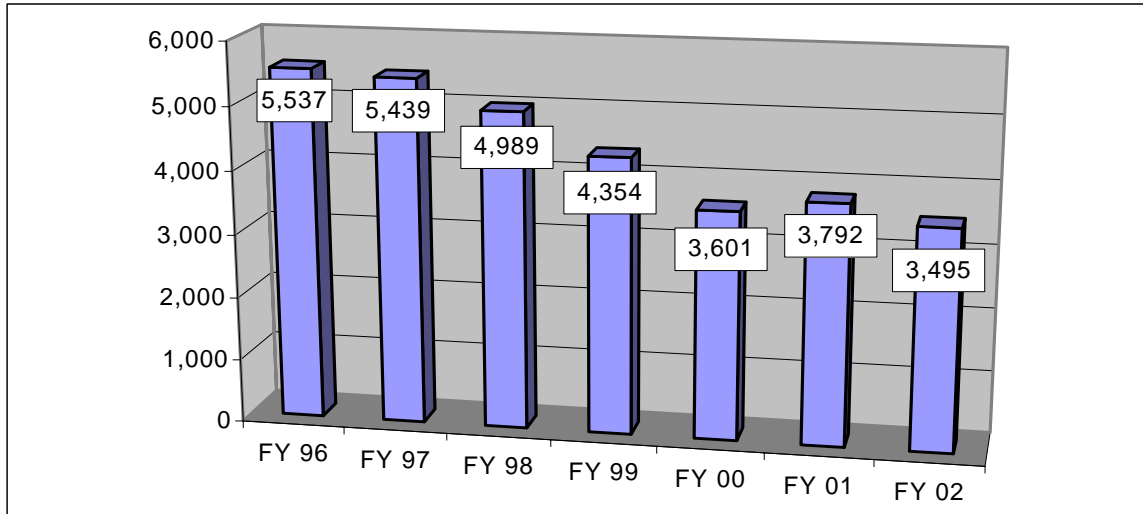
Figure 4. Examination Staffing at the End of Each Fiscal Year. Although new revenue agents and tax auditors/tax compliance officers were hired in FYs 2001 and 2002, there has still been a net decrease in total staff due to retirements and other attrition.



Source: Examination Table 37.

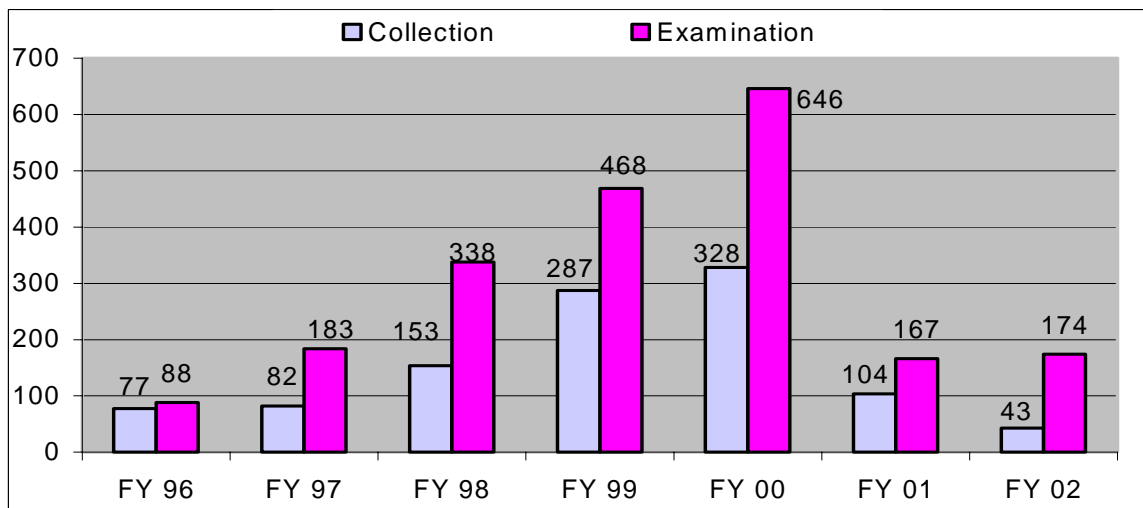
Trends in Compliance Activities Through Fiscal Year 2002

Figure 5. Collection Revenue Officer Staffing. After the IRS received funding and authorization to hire in FY 2001, the steady decline in the number of revenue officers working delinquent accounts was reversed in FY 2001, but the staffing level dropped again in FY 2002.



Source: Collection Report 5000-23.

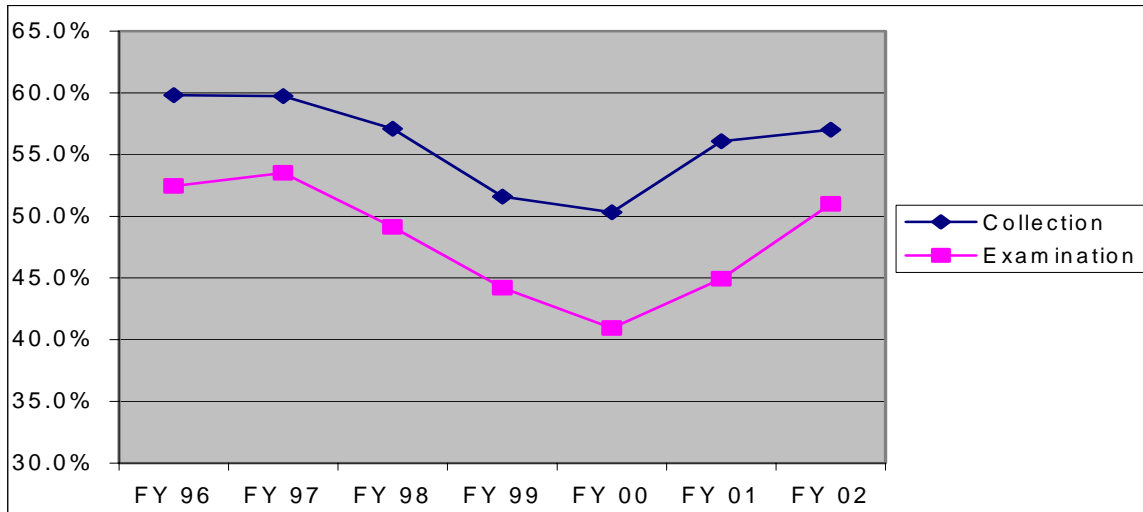
Figure 6. Staff Years Detailed to Customer Service. What had been a steadily increasing use of Collection and Examination function personnel detailed to Customer Service during the filing seasons was significantly reduced in FYs 2001 and 2002, as compared to the prior years.



Source: Collection Report 5000-23 and Examination Table 37.

Trends in Compliance Activities Through Fiscal Year 2002

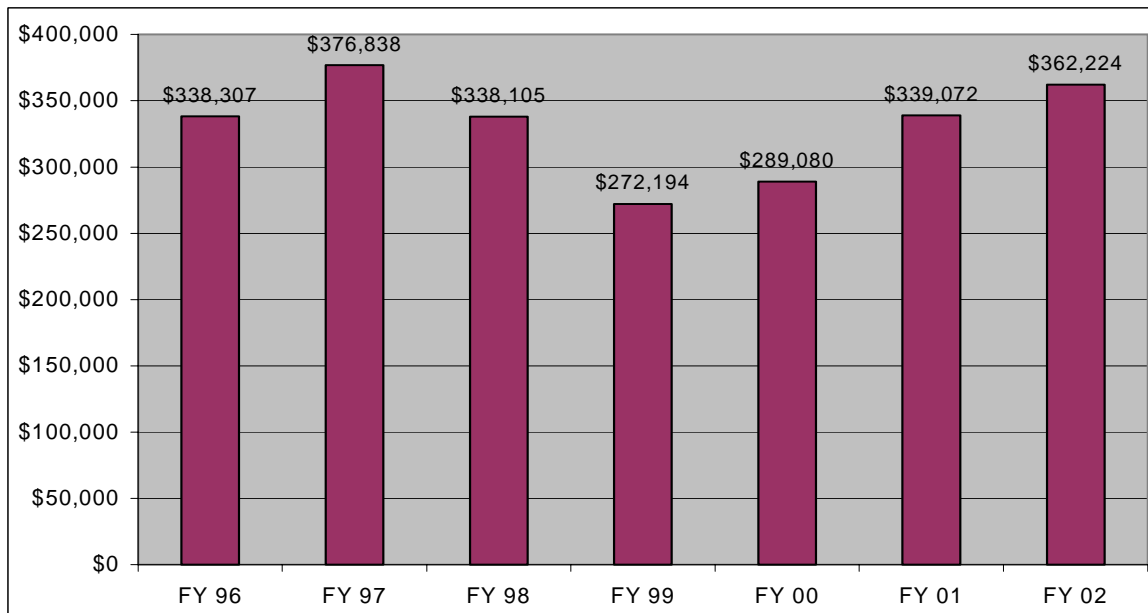
Figure 7. Changes in Direct Time Percentages. The Collection and Examination functions both increased the percentage of overall time spent collecting taxes and examining returns in FYs 2001 and 2002.



Source: TIGTA Analysis of Collection Report 5000-23 and Examination Table 37.

Figure 8. Average Dollars Collected per Staff Year in the Collection Field function (CFf).

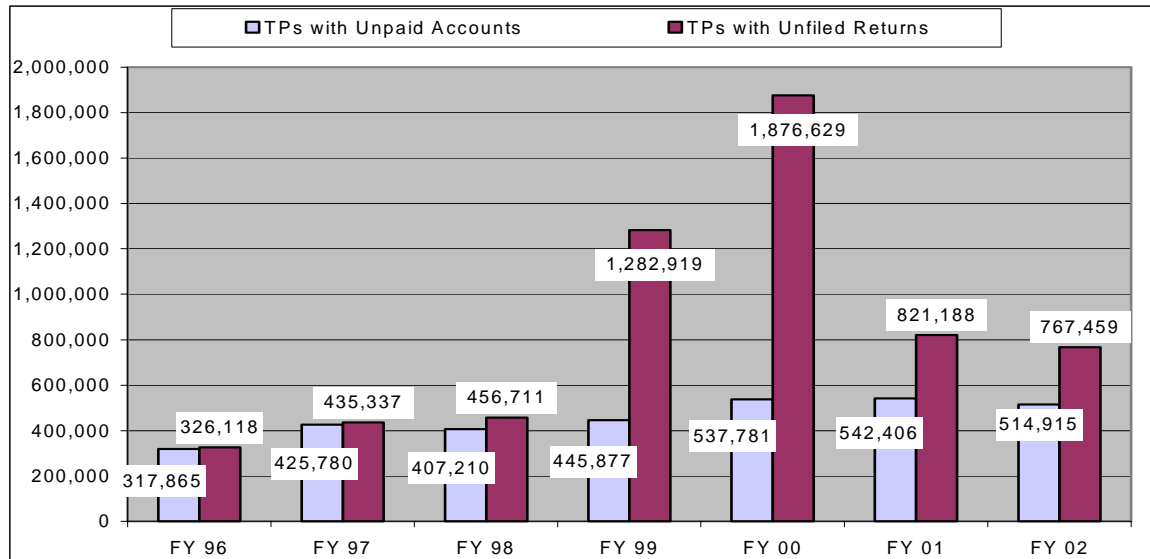
The average amount collected by the CFf for each staff year decreased from FY 1997 to FY 1999, but increased each of the last 3 years.



Source: Collection Report 5000-2.

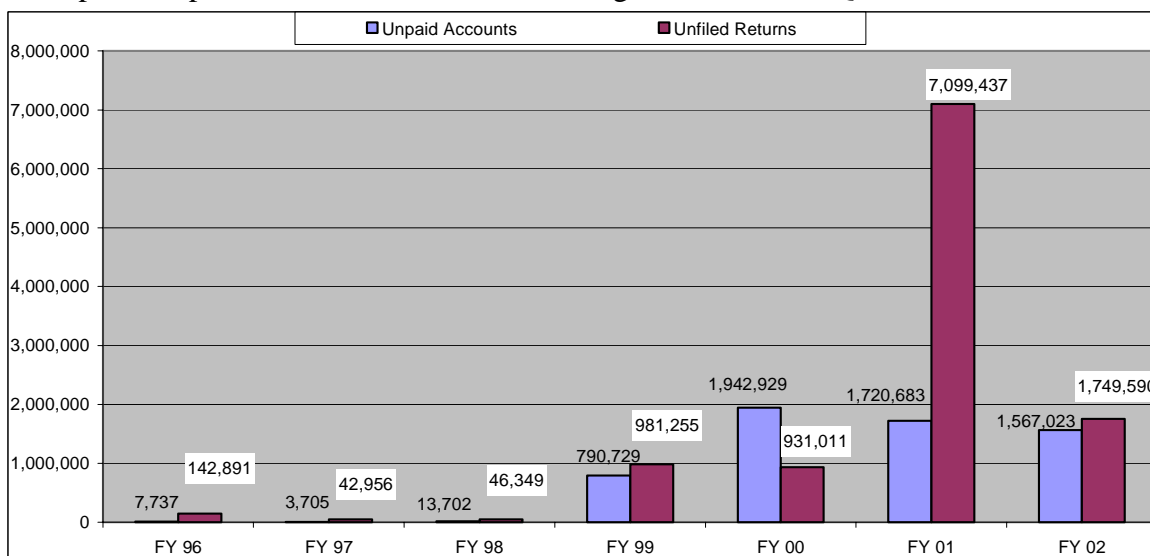
Trends in Compliance Activities Through Fiscal Year 2002

Figure 9. Delinquent Accounts in the Queue. The number of taxpayers (TPs) with unpaid tax liabilities and investigations of unfiled tax returns in the Queue increased significantly from FYs 1996 through 2000. However, there were large reductions in FYs 2000 to 2002 when the IRS used a special closing code to remove potentially less productive cases from the Queue (see Figure 10).



Source: Collection Reports 5000-2 and 5000-4.

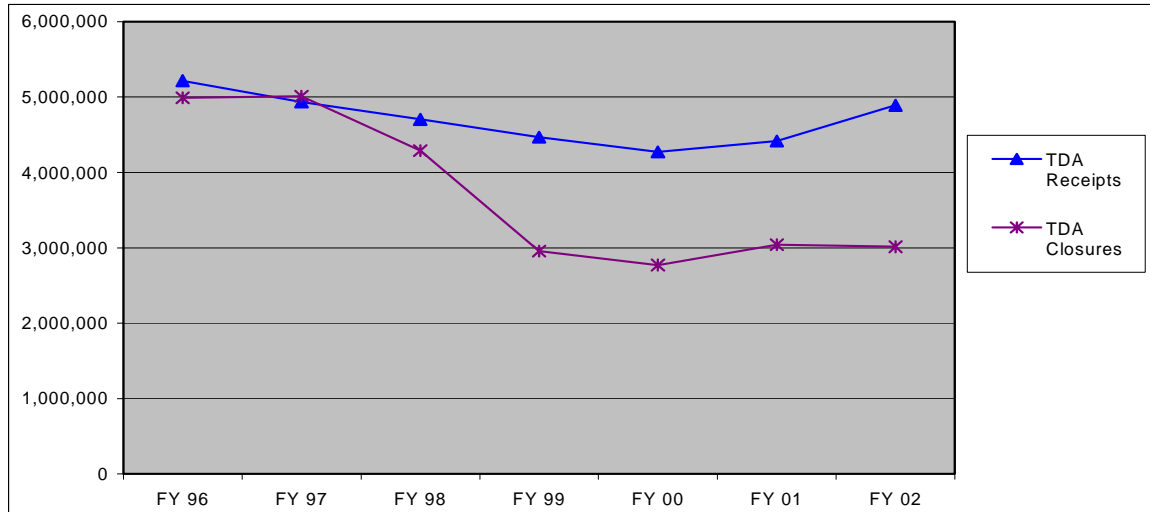
Figure 10. Delinquent Accounts and Unfiled Return Investigations Shelved or Surveyed Each Year. In FYs 1999 through 2002, the IRS used special closing codes to remove millions of unpaid tax periods and unfiled return investigations from the Queue.



Source: Collection Reports 5000-2 and 5000-4.

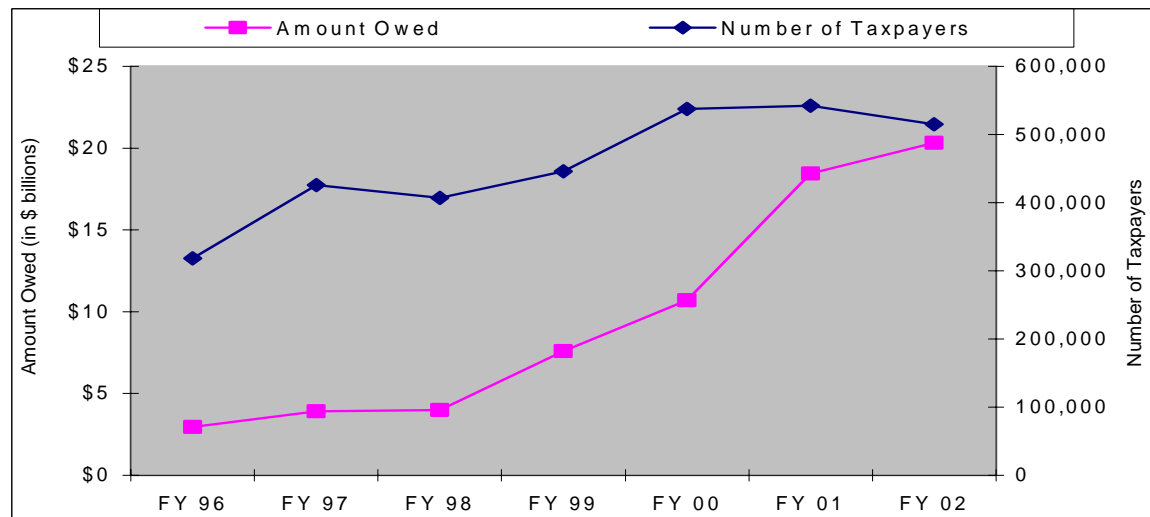
Trends in Compliance Activities Through Fiscal Year 2002

Figure 11. Gap Between New Delinquent Accounts and Account Closures. The number of unpaid accounts that the Collection function closed each year dropped significantly from FY 1997 to FY 2000, increased slightly in FY 2001, and fell slightly in FY 2002. The closures included here do not include the accounts shelved with currently not collectible closing code 39.



Source: Collection Report 5000-2.

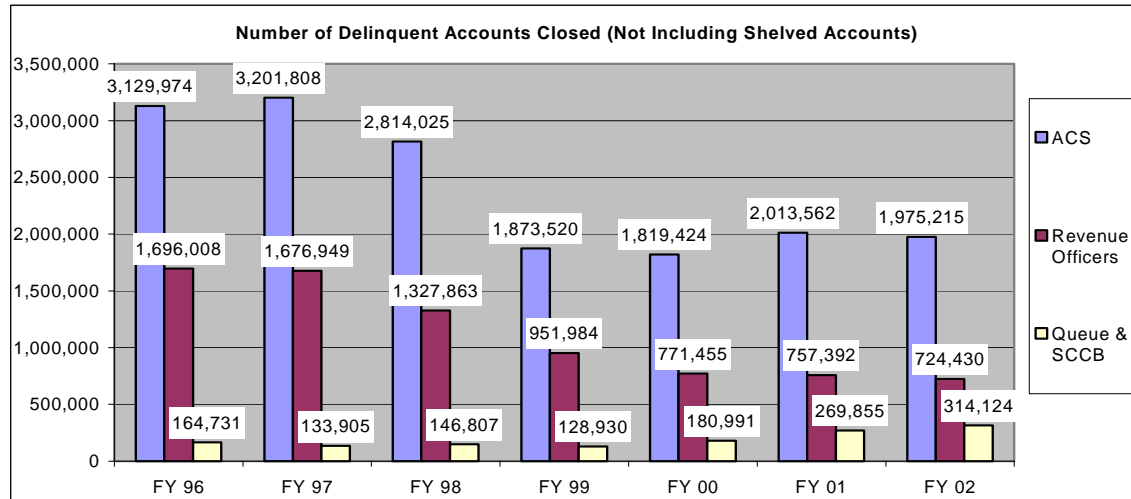
Figure 12. Number of Taxpayers and Amounts Owed in the Queue. While the number of taxpayers with accounts in the Queue stayed about the same in FY 2001 and decreased in FY 2002, the total value of the accounts increased significantly. The average amount owed by taxpayers whose accounts were in the Queue increased from \$9,300 in FY 1996 to \$39,500 in FY 2002.



Source: Collection Report 5000-2.

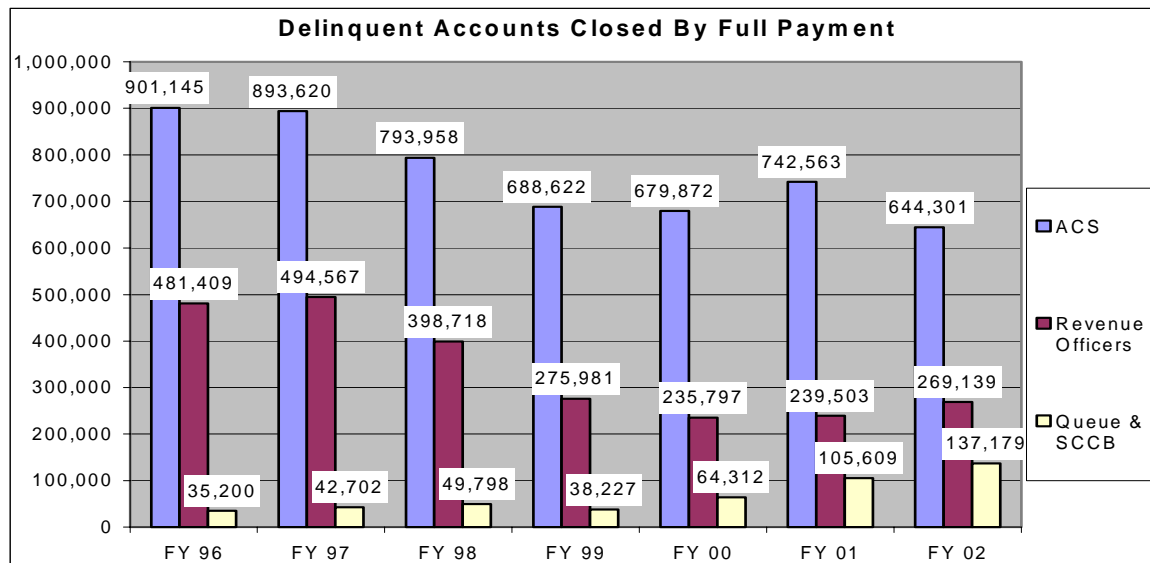
Trends in Compliance Activities Through Fiscal Year 2002

Figure 13. Number of Delinquent Accounts Closed Each Year, Not Including Shelved Accounts. The number of delinquent unpaid accounts closed by the Automated Collection System (ACS) increased during FY 2001 and then dropped slightly in FY 2002, but the downward trend continued in the Cff. As more accounts are left in the Queue, there are more closed after voluntary action by taxpayers while in that unassigned status.



Source: Collection Report 5000-2.

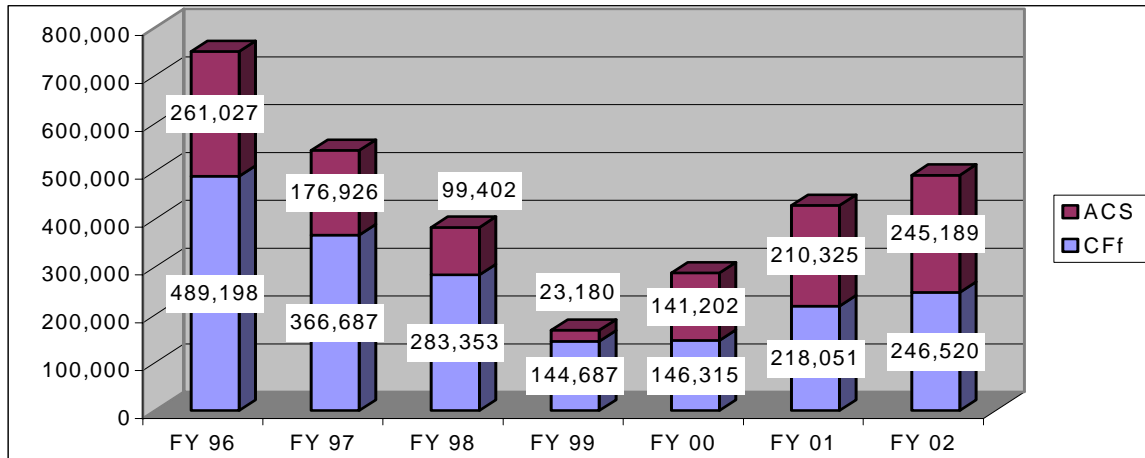
Figure 14. Number of Delinquent Accounts Closed by Full Payment. The downward trend in the number of accounts closed by full payment was reversed in FY 2001, but full payment closures dropped again for the ACS in FY 2002.



Source: Collection Report 5000-2.

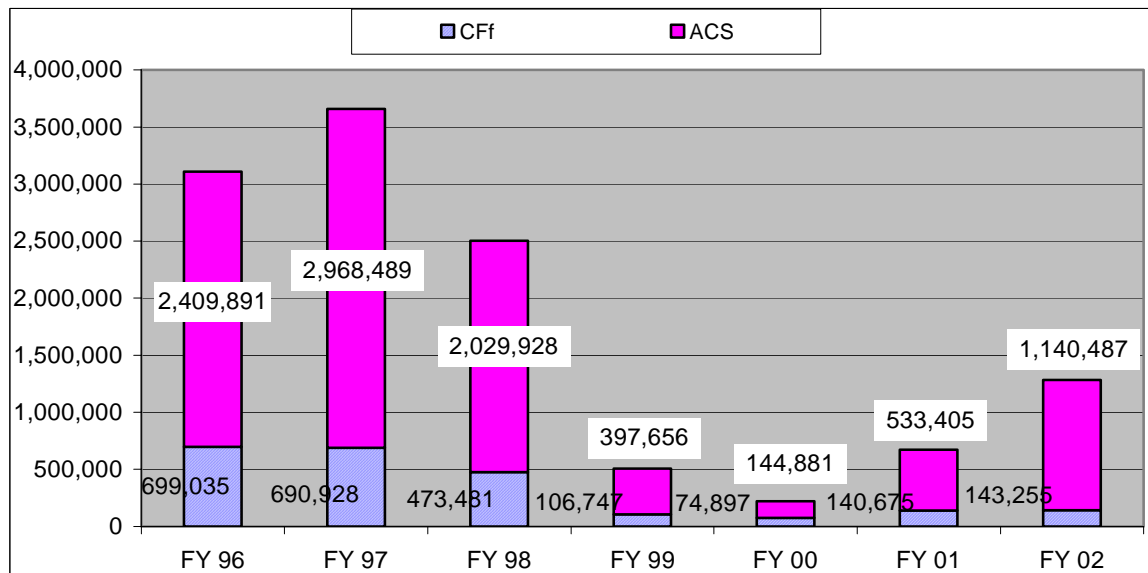
Trends in Compliance Activities Through Fiscal Year 2002

Figure 15. Liens Filed by the ACS and the CFf. While the total number of liens filed in FY 2002 is still substantially less than the number filed in FY 1996, the number filed by the ACS has returned to pre-1998 levels. The numbers filed by the CFf have increased in each of the past 3 years but have not returned to pre-1998 levels mainly because of the lower numbers and types of accounts being pursued.



Source: Collection Report 5000-23.

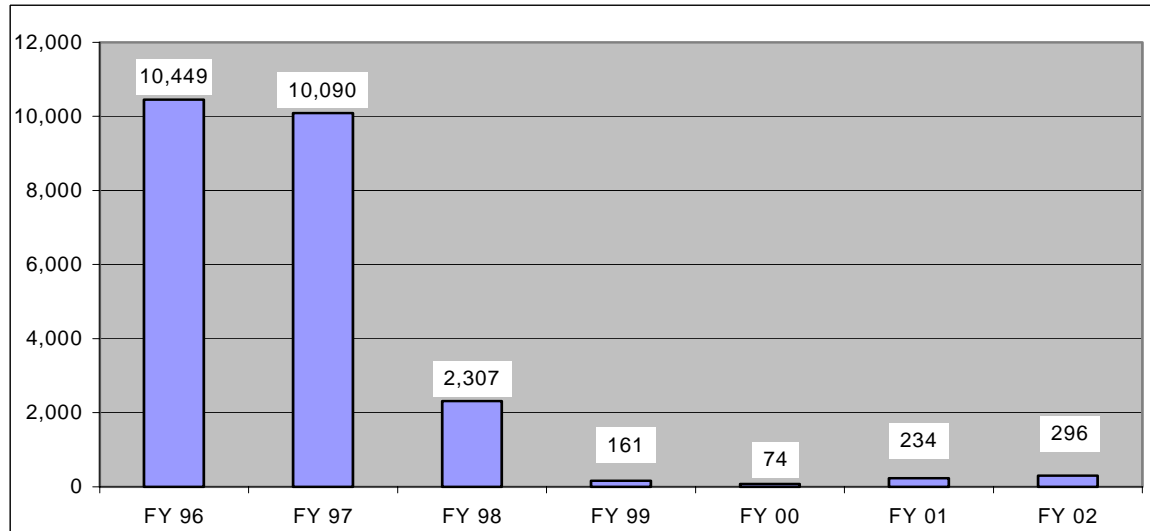
Figure 16. Levies Issued by the ACS and the CFf. While the number of levies issued in FY 2002 is still only about 41 percent of the number issued in FY 1996, it is an increase of 484 percent over FY 2000. As shown in the chart, substantial increases occurred in both the ACS and the CFf in FY 2001, with continuing increases in FY 2002. (See footnote 12 on page 3 of report.)



Source: Collection Report 5000-23 and Customer Service Activity Reports (for FYs 2001 and 2002).

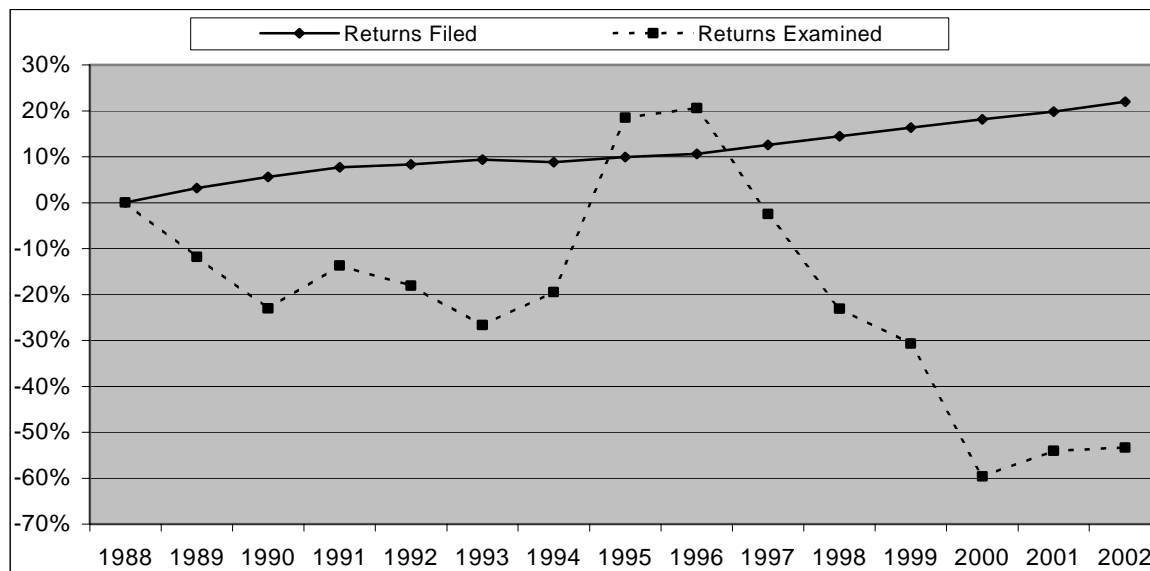
Trends in Compliance Activities Through Fiscal Year 2002

Figure 17. Number of Seizures Made Each Year. While the number of seizures made in FY 2002 is only 3 percent of the number made in FY 1996, it is an increase of 300 percent from FY 2000.



Source: Collection Report 5000-23 and IRS Manual Reconciliation of Seizure Logs.

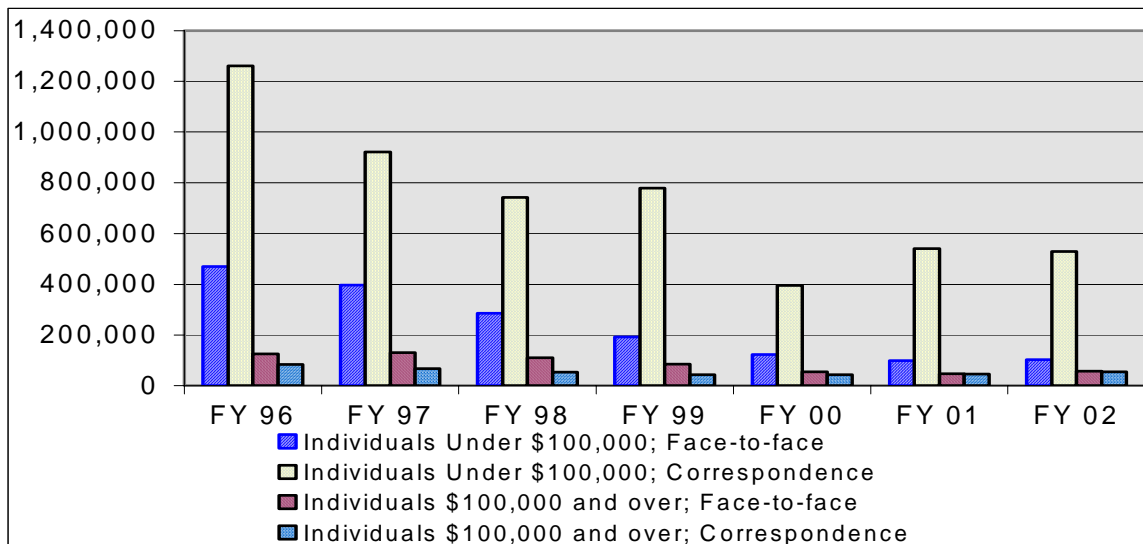
Figure 18. Examination Coverage of All Tax Returns – Percentage Change From FY 1988 to FY 2002. While the number of all tax returns filed has steadily increased, the number of examinations has fallen significantly since FY 1996. However, this number increased slightly in FYs 2001 and 2002.



Source: TIGTA Analysis of IRS Data Book Information.

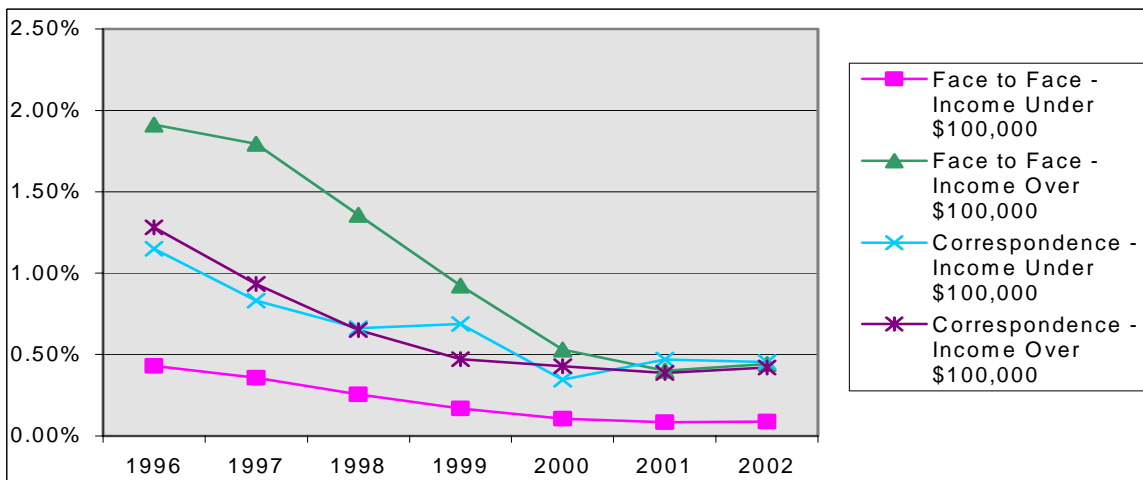
Trends in Compliance Activities Through Fiscal Year 2002

Figure 19. Number of Individual Income Tax Returns (Forms 1040) Examined Face-to-Face or Through Correspondence. The number of individual returns with incomes over and under \$100,000 examined face-to-face or by correspondence generally decreased from FY 1996 to FY 2000. However, the number of correspondence examinations of individuals with incomes under \$100,000 increased in FY 2001 and decreased again in FY 2002, while the other categories continued to decrease in FY 2001 but then increased slightly in FY 2002.



Source: TIGTA Analysis of Examination Table 37.

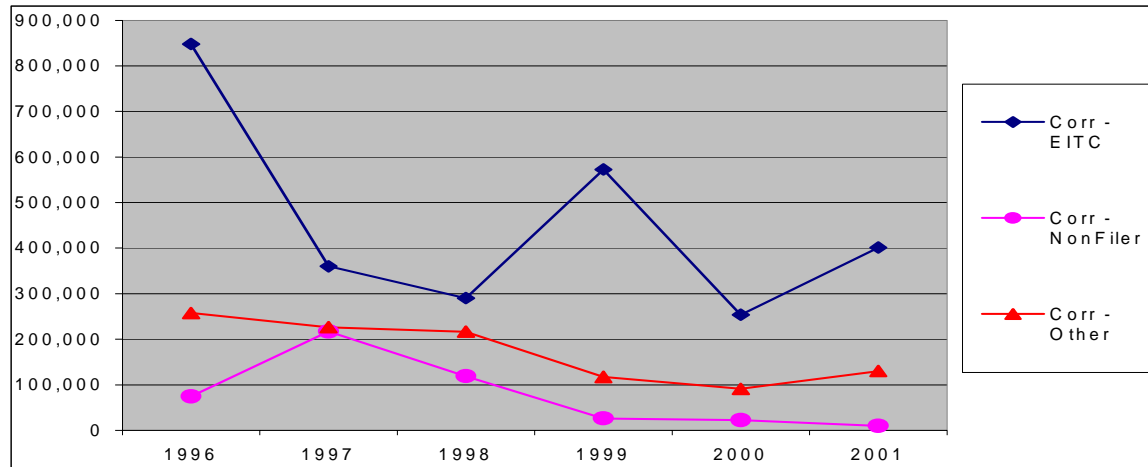
Figure 20. Percentage of Forms 1040 Examined Face-to-Face or Through Correspondence. While the percentage of coverage of each category generally decreased from FY 1996 to FY 2001, the percentage of returns with income under \$100,000 examined by correspondence increased slightly in FY 2001, and the other three categories each increased slightly in FY 2002.



Source: TIGTA Analysis of Examination Table 37.

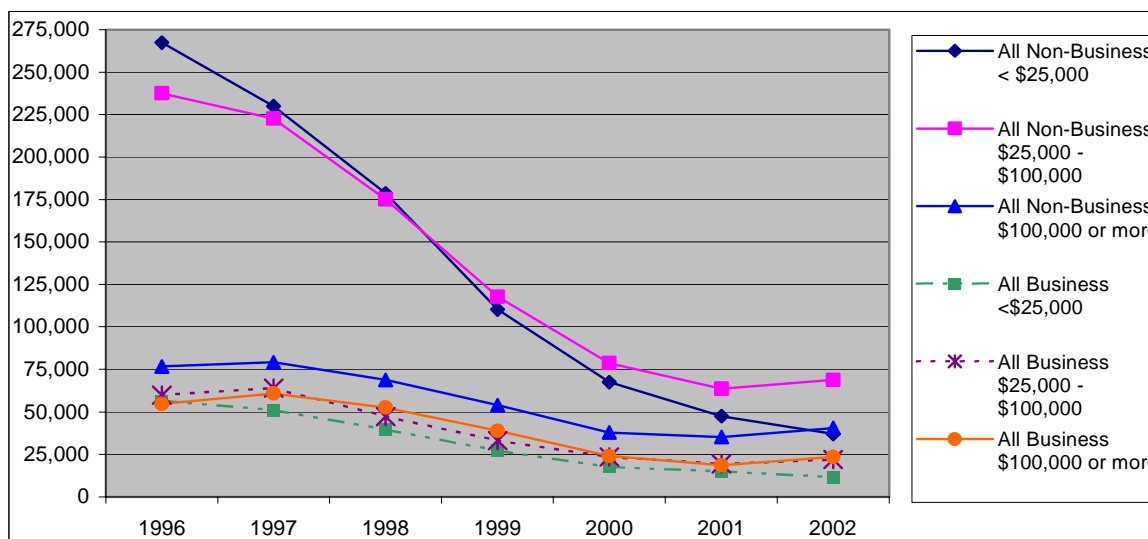
Trends in Compliance Activities Through Fiscal Year 2002

Figure 21. Number of Forms 1040 Examined by Compliance Site Correspondence. The number of individual income tax returns examined by the Compliance sites fluctuated widely from year to year, based largely on the emphasis placed on Earned Income Tax Credit claims. These fluctuations greatly affected the overall examination rate because of the large numbers that can be done through correspondence (Corr) compared to the numbers that can be done through regular field techniques. FY 2002 data for this analysis were not available at the time this report was prepared.



Source: TIGTA Analysis of April 2002 IRS Report to the Congress About Examination Coverage.

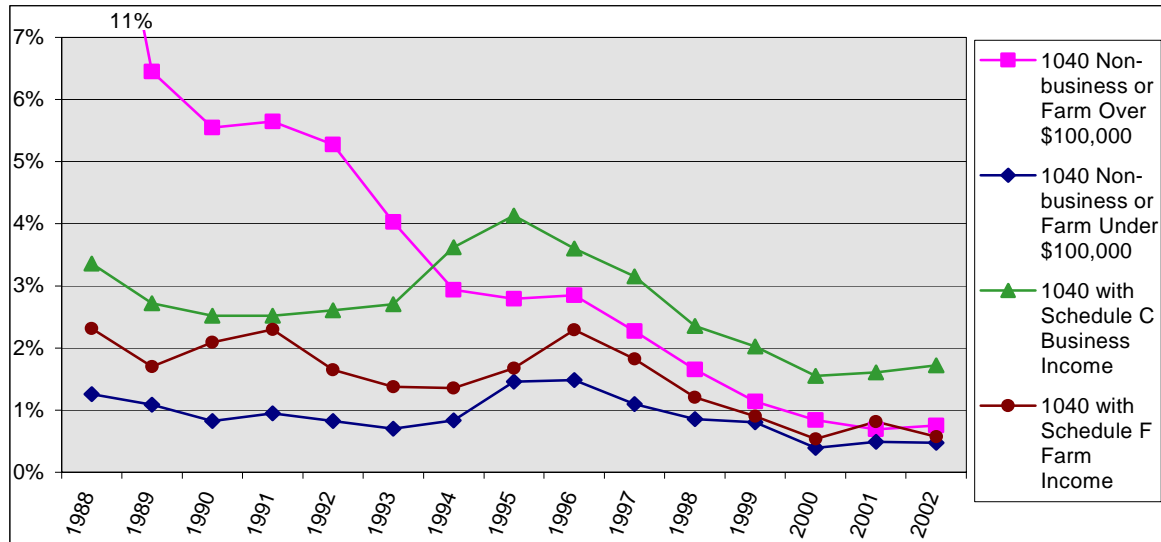
Figure 22. Number of Forms 1040 Examined by Field Offices. The number of field office examinations of individual tax returns for the various income levels decreased from FYs 1997 through 2001 but increased in FY 2002 in all classes of returns with incomes over \$25,000.



Source: TIGTA Analysis of IRS Data Book Information.

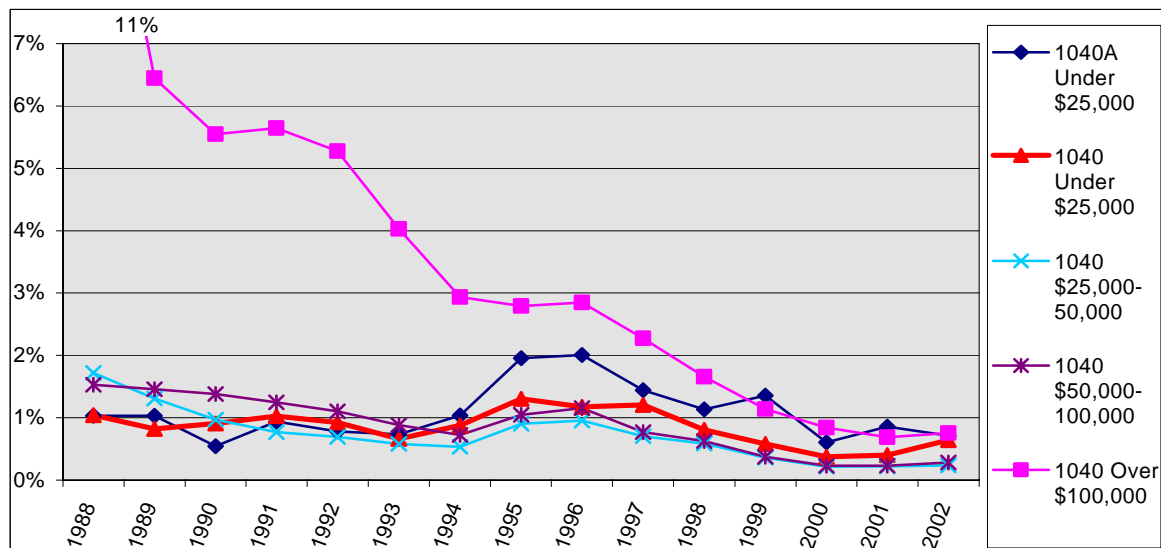
Trends in Compliance Activities Through Fiscal Year 2002

Figure 23. Percentage of Forms 1040 Examined. This shows the comparison in examination rates (total correspondence and face-to-face) for returns with business or farm income and those over or under \$100,000 income without any business or farm income. All consistently fell from FYs 1996 through 2000, but most increased in FY 2001. FY 2002 showed increases in Schedule C examinations (over \$25,000) and in non-business Forms 1040 over \$100,000.



Source: TIGTA Analysis of IRS Data Book Information.

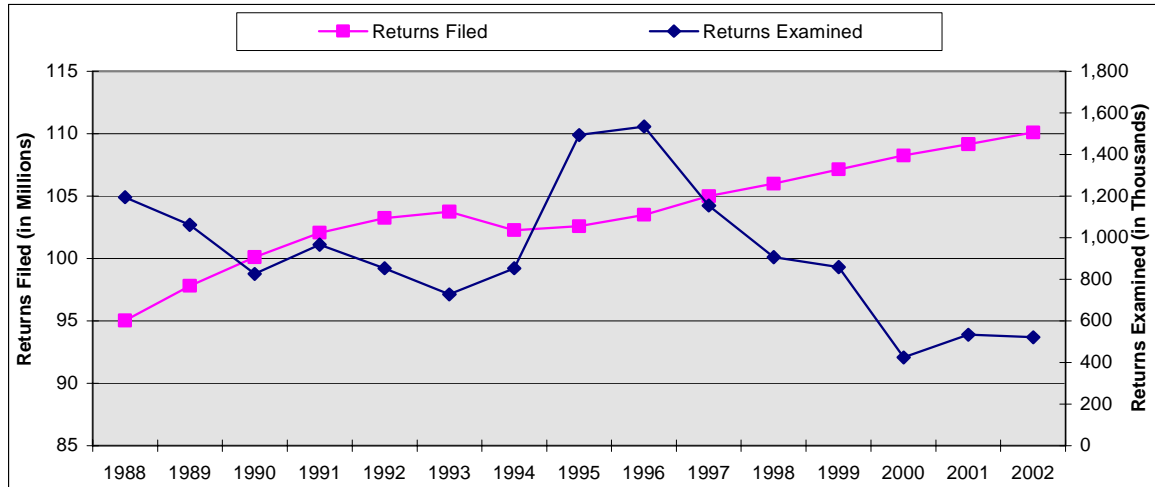
Figure 24. Percentage Examined – Forms 1040 With No Business or Farm Income. While Forms 1040 reporting incomes over \$100,000 previously received more examination coverage, the rate of coverage has decreased to about the same levels as other types of Forms 1040.



Source: TIGTA Analysis of IRS Data Book Information.

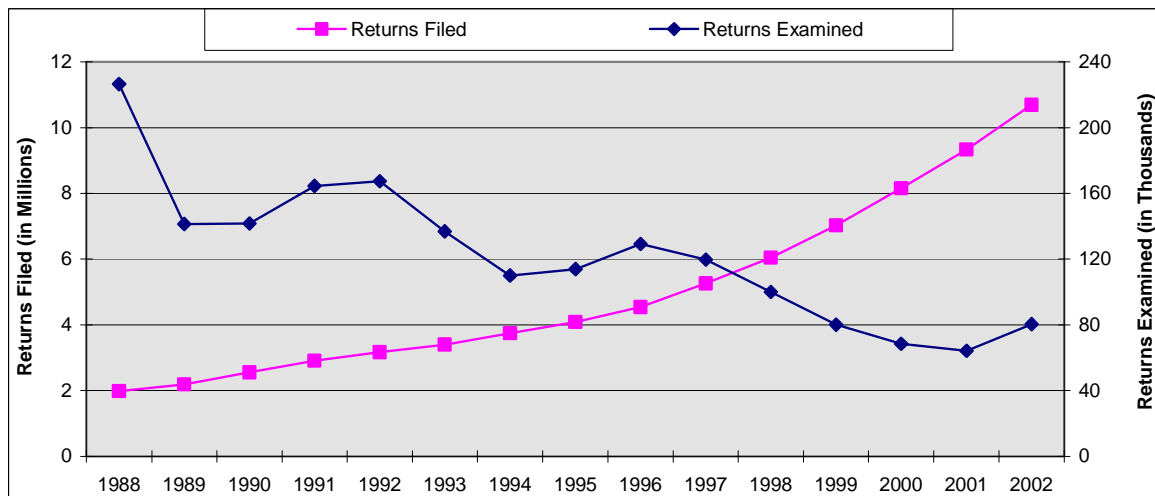
Trends in Compliance Activities Through Fiscal Year 2002

Figure 25. Examination Coverage of Non-business Forms 1040 Under \$100,000. The number of these returns filed with income under \$100,000 has increased steadily, except for a slight drop in FY 1994, while the number examined has fluctuated. There was a significant decline in the number of examinations from FYs 1996 through 2000, but there was an increase in FY 2001 and a slight drop in FY 2002.



Source: TIGTA Analysis of IRS Data Book Information.

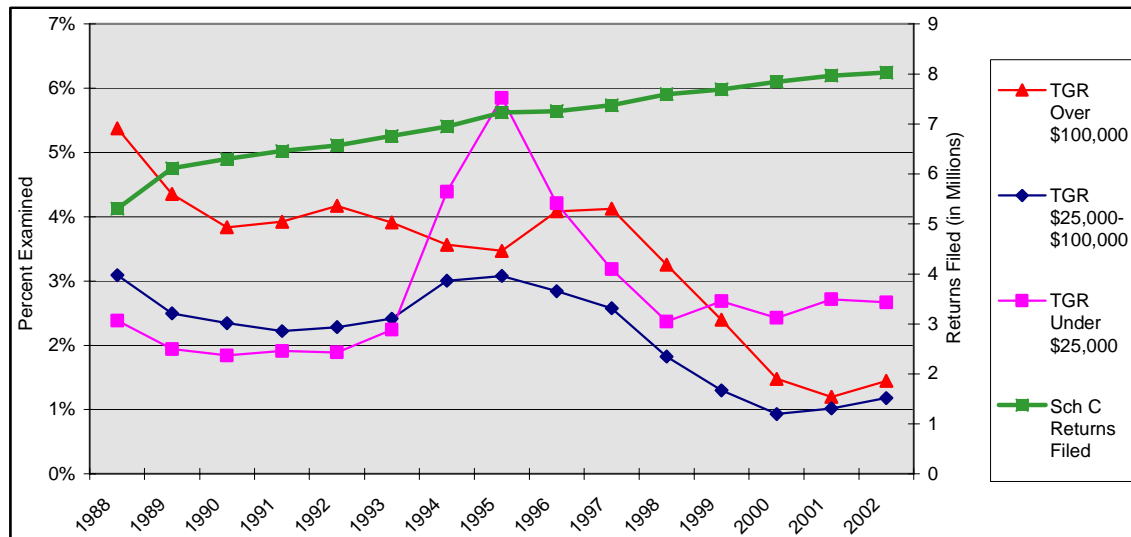
Figure 26. Examination Coverage of Non-business Forms 1040 Over \$100,000. The number of non-business returns filed with income over \$100,000 steadily increased to 10.7 million, while the number examined declined steadily from FY 1996 until FY 2002, when the number examined increased by 16,000 to just over 80,000 returns.



Source: TIGTA Analysis of IRS Data Book Information.

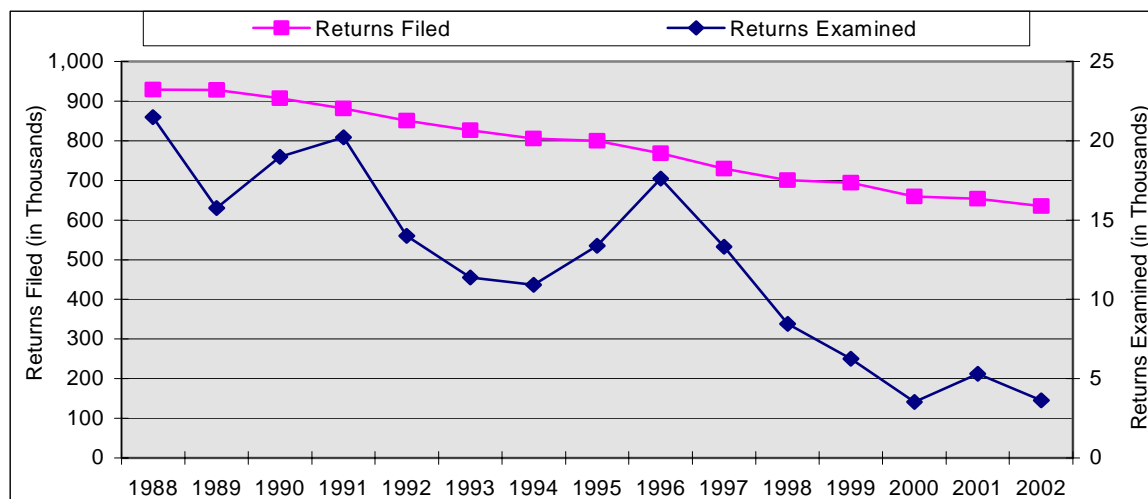
Trends in Compliance Activities Through Fiscal Year 2002

Figure 27. Examination Coverage of Forms 1040 With Business Income (Excluding Farms). While the number of individual income tax returns filed with business income has steadily increased to over 8 million, the examination coverage dropped significantly after FY 1995, until increasing slightly to 128,062 returns in FY 2001 and 138,254 in FY 2002. (In the chart, the coverage is separated by the “total gross receipts” (TGR) reported.)



Source: TIGTA Analysis of IRS Data Book Information.

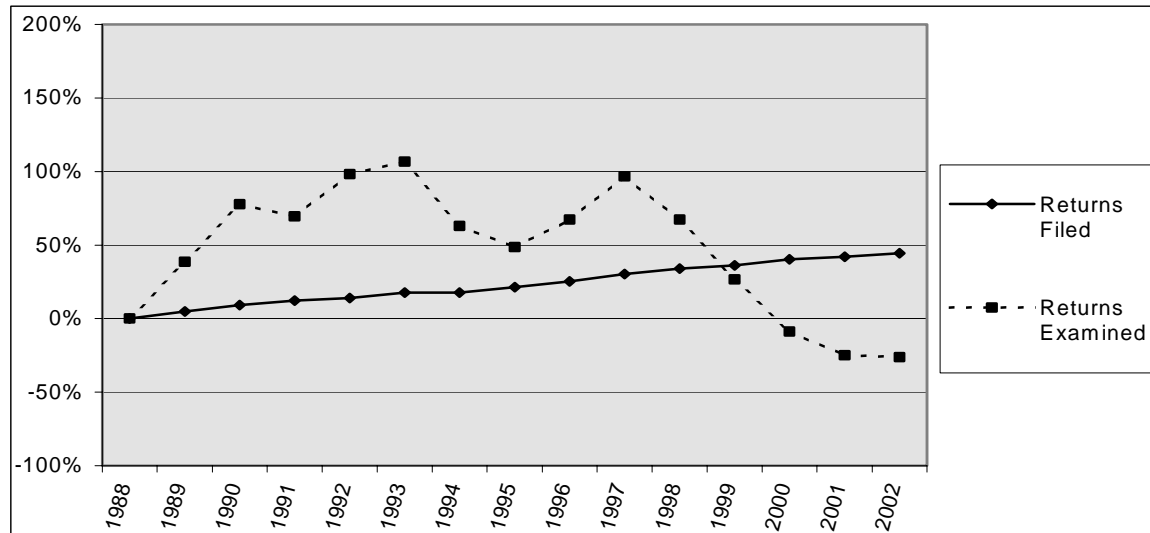
Figure 28. Examination Coverage of Forms 1040 With Farm Income. The number of returns filed with farm income has steadily decreased to about 650,000 returns. The examination coverage fluctuated from FY 1988 to 1996 and then dropped significantly until FY 2000, with a slight increase to 5,315 returns examined in FY 2001 and a drop to 3,641 returns examined in FY 2002.



Source: TIGTA Analysis of IRS Data Book Information.

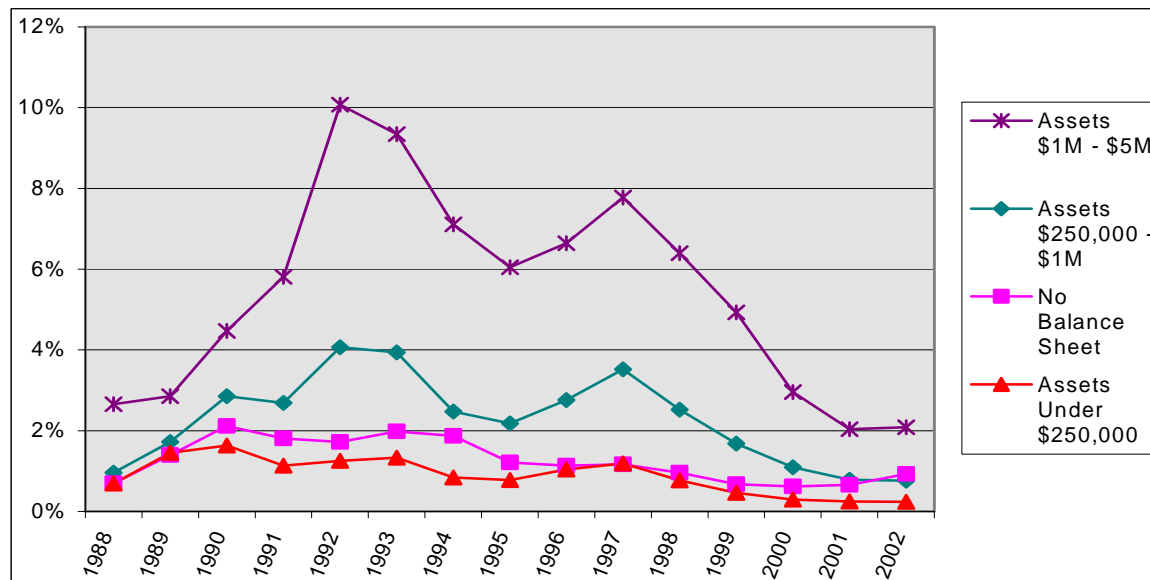
Trends in Compliance Activities Through Fiscal Year 2002

Figure 29. Examination Coverage of All Corporate Income Tax Returns – Percentage Change From FY 1988 to FY 2002. While the total number of corporate income tax returns has steadily increased, the total number of examinations has dropped significantly since FY 1997.



Source: TIGTA Analysis of IRS Data Book Information.

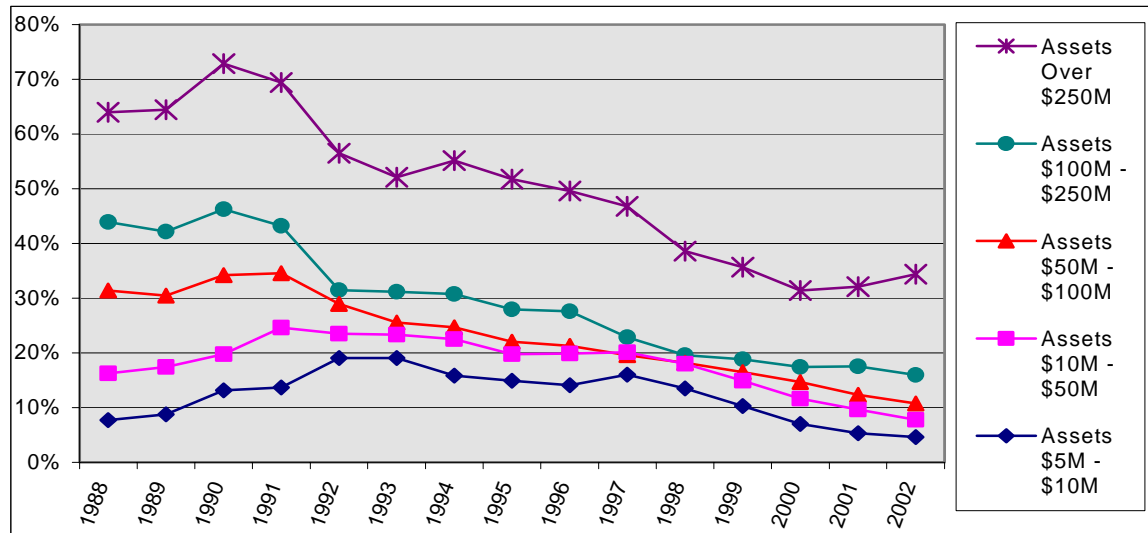
Figure 30. Percentage of Corporate Income Tax Returns Examined – Corporations with Assets Under \$5 Million. The percentage of corporate returns examined in all asset classes under \$5 million has decreased over the past several years. However, the coverage in the No Balance Sheet and Assets from \$1 million - \$5 million categories increased slightly in FY 2002.



Source: TIGTA Analysis of IRS Data Book Information.

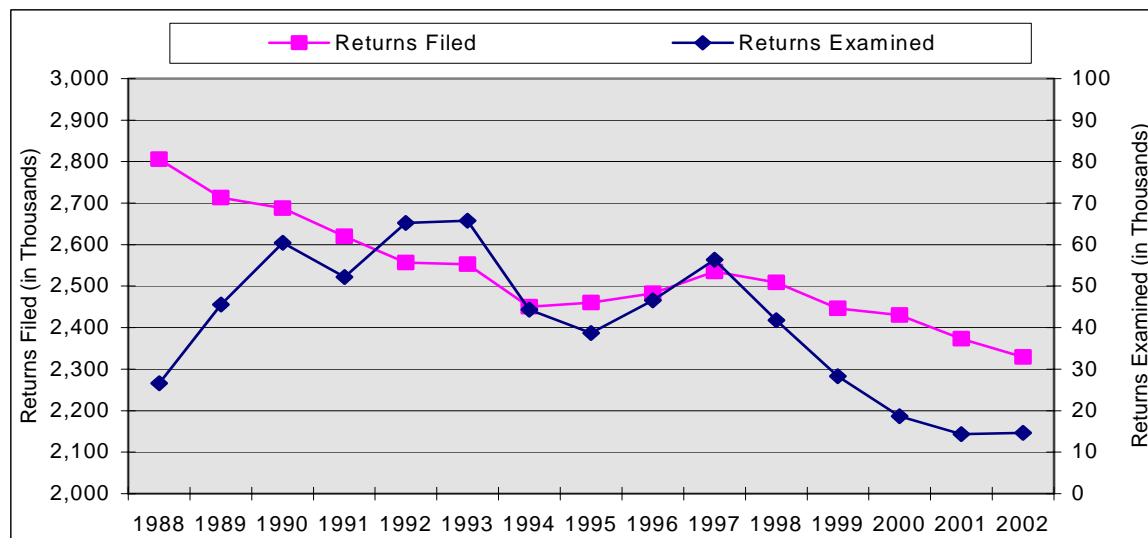
Trends in Compliance Activities Through Fiscal Year 2002

Figure 31. Percentage of Corporate Income Tax Returns Examined – Corporations With Assets Over \$5 Million. The percentage of corporate returns examined in the majority of asset classes over \$5 million has steadily declined in the last decade. However, the coverage in the largest class (over \$250 million in assets) showed a slight increase in FYs 2001 and 2002.



Source: TIGTA Analysis of IRS Data Book Information.

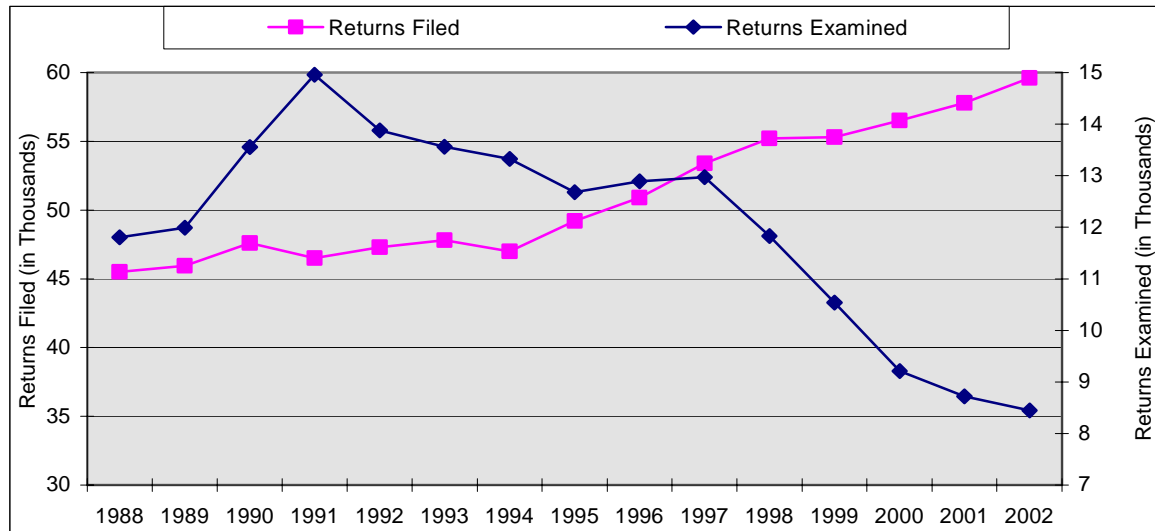
Figure 32. Examination Coverage of Corporations With Assets Under \$10 Million. The number of corporate returns filed with assets under \$10 million has decreased to about 2.3 million returns, but the number examined has declined at a higher rate and dropped to 14,665 in FY 2002.



Source: TIGTA Analysis of IRS Data Book Information.

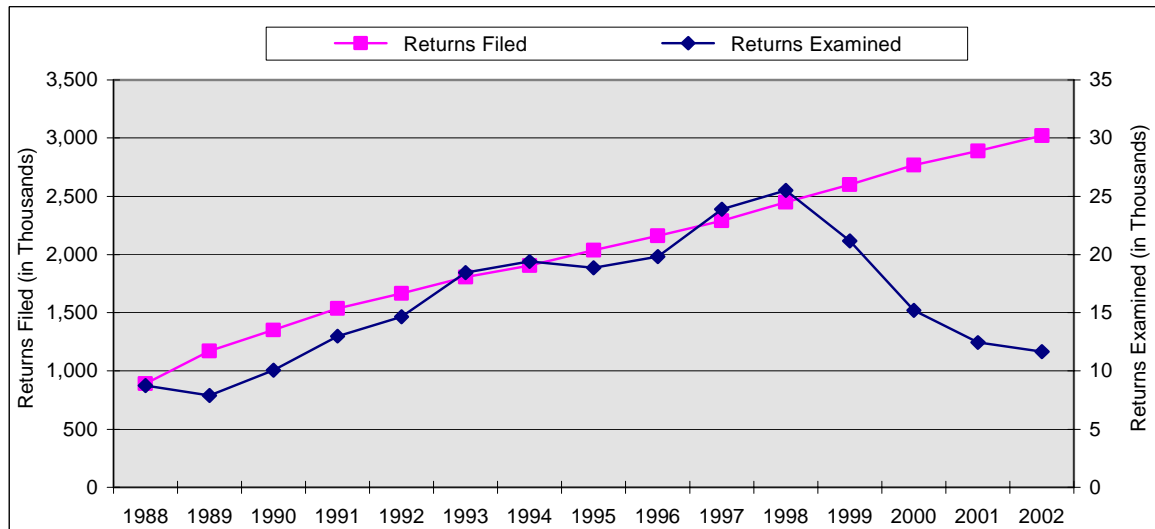
Trends in Compliance Activities Through Fiscal Year 2002

Figure 33. Examination Coverage of Corporations With Assets Over \$10 Million. The number of corporate returns filed with assets over \$10 million has increased to almost 60,000 returns, but the number examined has declined significantly since FY 1997, dropping to 8,443 returns examined in FY 2002.



Source: TIGTA Analysis of IRS Data Book Information.

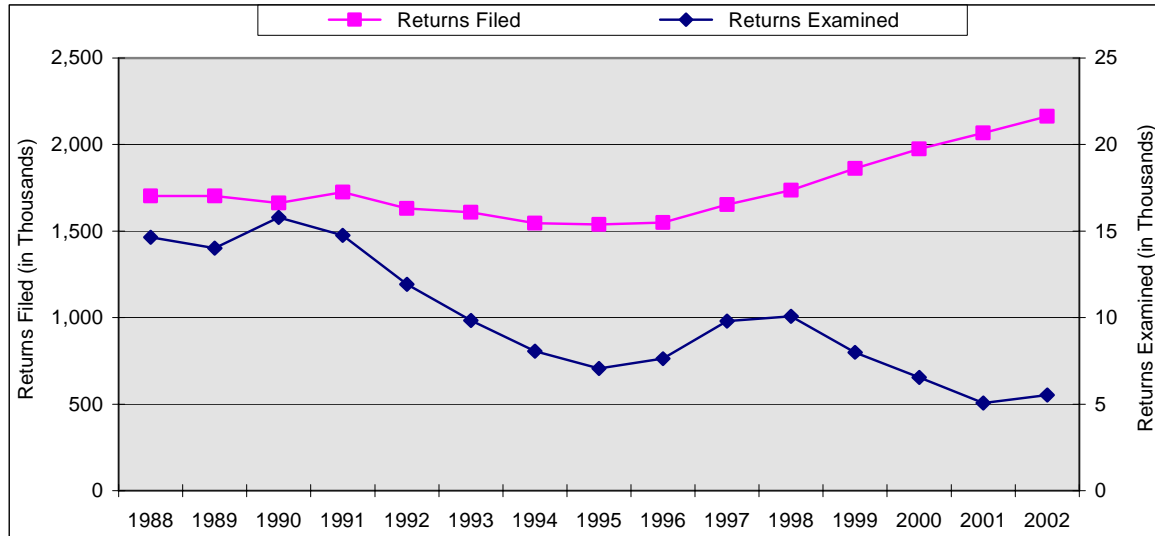
Figure 34. Examination Coverage of S Corporations (Form 1120S). The number of Forms 1120S filed has increased to over 3 million returns, and the number examined was also increasing until FY 1998. However, the number of examinations has dropped significantly since then, falling to 11,646 returns examined in FY 2002.



Source: TIGTA Analysis of IRS Data Book Information.

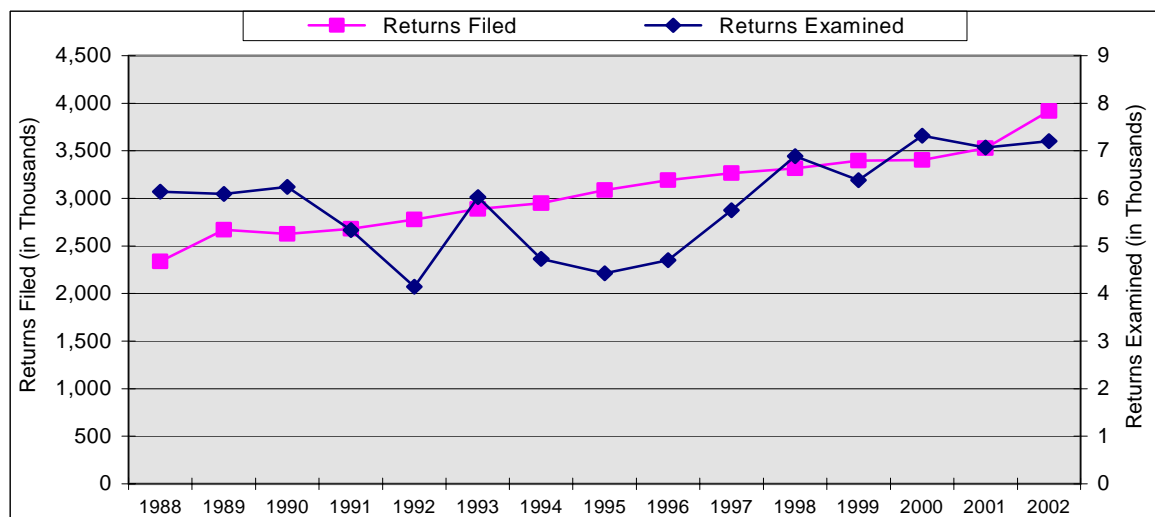
Trends in Compliance Activities Through Fiscal Year 2002

Figure 35. Examination Coverage of Partnership Income Tax Returns. While the number of partnership returns has grown in recent years to over 2.1 million filed, the number examined decreased to 5,070 returns in FY 2001 and then increased to 5,543 in FY 2002.



Source: TIGTA Analysis of IRS Data Book Information.

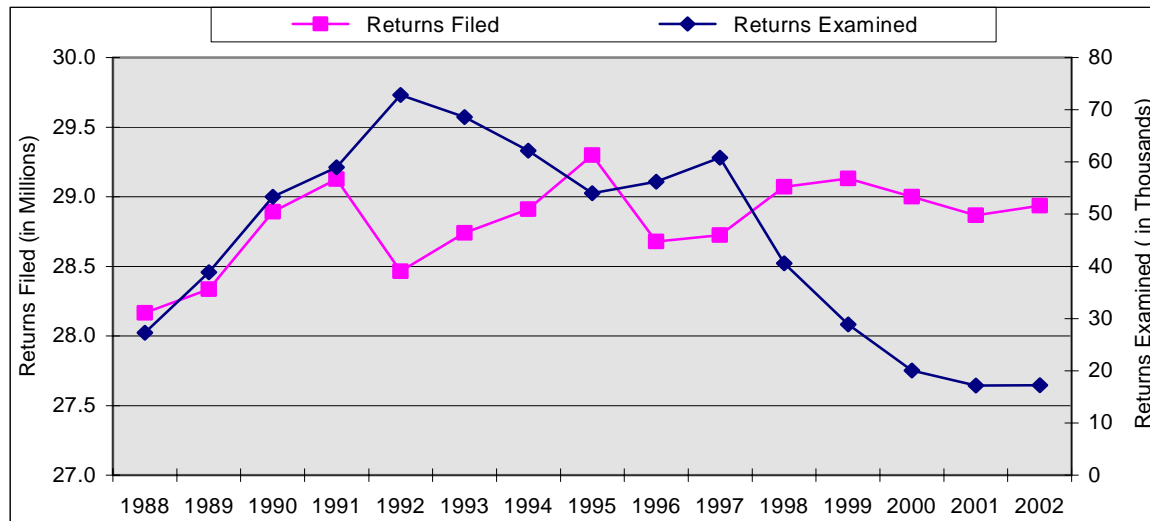
Figure 36. Examination Coverage of Fiduciary Income Tax Returns. The number of income tax returns filed by estates and trusts has steadily increased each year, from about 2.3 million in FY 1988 to over 3.9 million returns in FY 2002. However, the number of examinations has fluctuated from about 4,500 in the mid-1990s to 7,318 in FY 2000, dropping to 7,070 in FY 2001 and increasing to 7,206 in FY 2002, maintaining a coverage rate of about 0.2 percent.



Source: TIGTA Analysis of IRS Data Book Information.

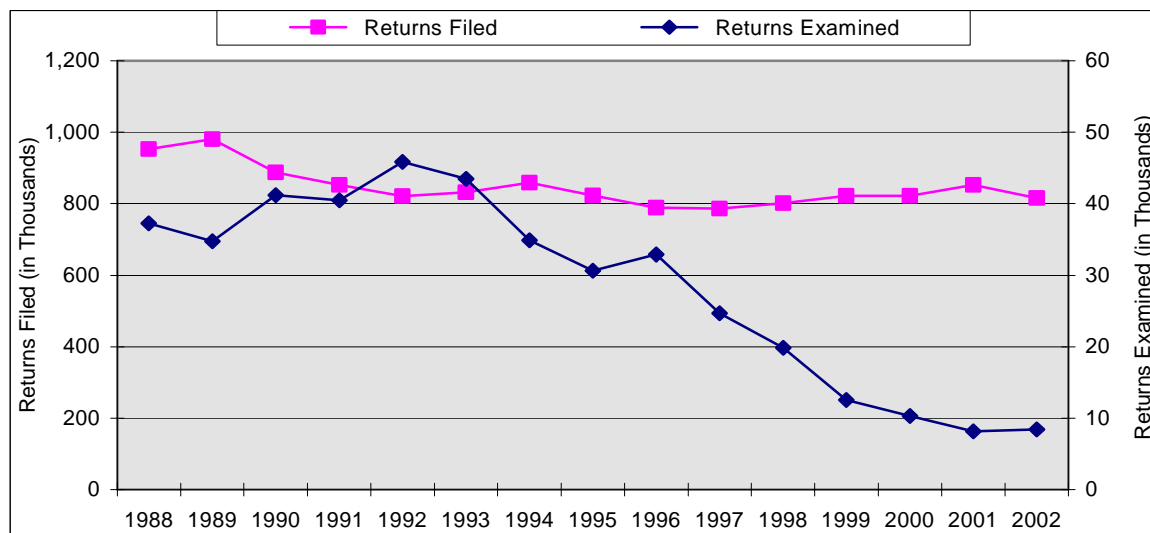
Trends in Compliance Activities Through Fiscal Year 2002

Figure 37. Examination Coverage of Employment Tax Returns. While the number of employment tax returns filed has been relatively steady at around 29 million, the number of those returns examined has decreased 69 percent since FY 1996, dropping to 17,252 returns examined in FY 2002.



Source: TIGTA Analysis of IRS Data Book Information.

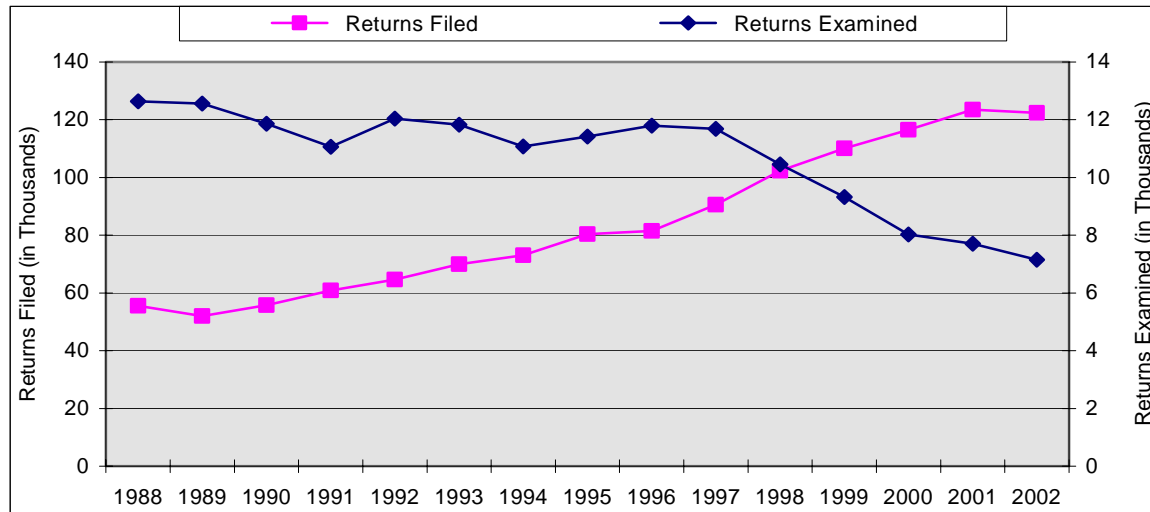
Figure 38. Examination Coverage of Excise Tax Returns. While the number of excise tax returns filed has been relatively steady, the number of those returns examined has decreased 74 percent since FY 1996, falling to 8,169 in FY 2001, but with a slight increase in FY 2002.



Source: TIGTA Analysis of IRS Data Book Information.

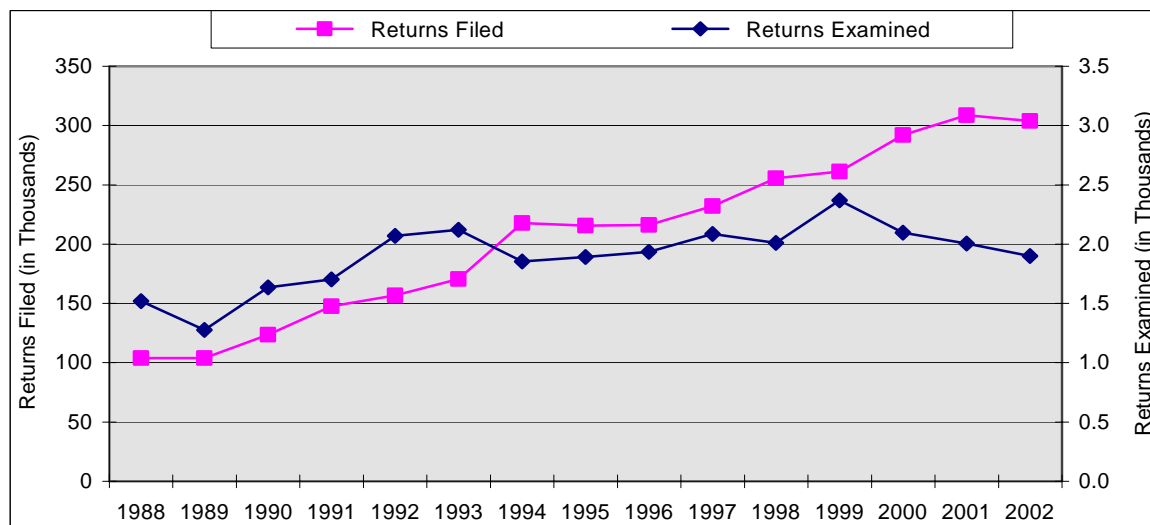
Trends in Compliance Activities Through Fiscal Year 2002

Figure 39. Examination Coverage of Estate Tax Returns. While the number of estate tax returns filed has steadily increased each year, from less than 60,000 in 1988 to over 120,000 in 2001, the number of examinations stayed relatively steady until it began to decline in FY 1997, dropping to 7,151 in FY 2002.



Source: TIGTA Analysis of IRS Data Book Information.

Figure 40. Examination Coverage of Gift Tax Returns. The number of gift tax returns filed has tripled since FY 1988 to over 300,000 returns, while the number of examinations has increased moderately until declining in the last 3 years to 1,899 returns in FY 2002.



Source: TIGTA Analysis of IRS Data Book Information.

Trends in Compliance Activities Through Fiscal Year 2002

Figure 41. Numbers and Percentages of Business Returns Examined. This chart shows the actual numbers and percentages of examination coverage for these non-individual types of tax returns.

	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Corporations < \$10 Million	46,568	56,323	41,818	28,268	18,623	14,332	14,655
Coverage Rate	1.88%	2.22%	1.67%	1.16%	0.77%	0.60%	0.63%
Corporations \$10 Million & Over	12,891	12,972	11,830	10,537	9,212	8,718	8,443
Coverage Rate	25.33%	24.29%	21.43%	19.05%	16.30%	15.08%	14.17%
1120S	19,490	23,898	25,522	21,169	15,200	12,437	11,646
Coverage Rate	0.92%	1.04%	1.04%	0.81%	0.55%	0.43%	0.39%
Partnerships	7,636	9,811	10,082	7,991	6,539	5,070	5,543
Coverage Rate	0.49%	0.59%	0.58%	0.43%	0.33%	0.25%	0.26%
Fiduciaries	4,701	5,753	6,890	6,382	7,318	7,070	7,206
Coverage Rate	0.15%	0.18%	0.21%	0.19%	0.22%	0.20%	0.18%
Employment	56,195	60,799	40,595	28,898	20,074	17,163	17,252
Coverage Rate	0.20%	0.21%	0.14%	0.10%	0.07%	0.06%	0.06%
Excise	32,900	24,701	19,858	12,562	10,294	8,169	8,426
Coverage Rate	4.17%	3.14%	2.48%	1.53%	1.25%	0.96%	1.03%
Estates	11,794	11,686	10,451	9,319	8,024	7,707	7,151
Coverage Rate	14.47%	12.90%	10.22%	8.46%	6.89%	6.24%	5.84%
Gift	1,934	2,085	2,010	2,369	2,097	2,005	1,899
Coverage Rate	0.89%	0.90%	0.79%	0.91%	0.72%	0.65%	0.63%

Source: April 2002 IRS Report to the Congress as Requested in the House Report Accompanying the Treasury and General Government Appropriations Act, 2002, Pub.L. No. 107-67, 115 Stat 514 (2001), with 2002 data from TIGTA Analysis of IRS Data Book Information.

Trends in Compliance Activities Through Fiscal Year 2002

Figure 42. Numbers of Individual Income Tax Returns Examined Through Field or Correspondence Examinations and Compliance Center Contacts. This IRS-prepared table shows the numbers of returns included in “examination” statistics and the numbers of returns included in other compliance contacts for math errors, underreported income issues, and automated substitute for returns due to non-filing. The decline in the numbers of these other contacts has not been at the same rate as the decline in examinations. However, when added to examinations, the total number of compliance contacts compared to the number of returns filed shows an overall decline in the percentage of returns covered by compliance checks. This table also shows the wide variances in types of coverage from year to year in compliance center contacts. The data analysis for FY 2002 was not available at the time this report was prepared.

1040 Examinations and Other Compliance Contacts						
Examinations	1996	1997	1998	1999	2000	2001
Correspondence Exams - EITC	848,210	360,101	290,010	572,592	253,535	401,448
Correspondence Exams - Nonfiler	74,132	217,141	118,846	26,252	22,017	9,624
Correspondence Exams - All Other	257,354	226,386	216,165	117,013	90,953	129,830
Field Exams - EITC	0	0	33,496	30,783	17,945	13,719
Field Exams - Nonfiler	161,263	111,701	88,116	56,984	37,011	23,624
Field Exams - All Other Non-Business < \$25,000	192,222	178,985	113,752	65,521	40,559	30,947
Field Exams - All Other Non-Business \$25,000 - \$100,000	216,186	205,034	155,829	103,824	69,234	56,887
Field Exams - All Other Non-Business \$100,000 or more	70,300	73,923	63,620	49,886	35,242	33,071
Field Exams - All Other Business < \$25,000	25,748	32,887	25,321	16,148	10,789	9,822
Field Exams - All Other Business \$25,000 - \$100,000	46,251	56,094	39,387	26,774	19,252	16,890
Field Exams - All Other Business \$100,000 or more	49,880	56,991	48,238	34,564	21,076	17,555
Total Examinations	1,941,546	1,519,243	1,192,780	1,100,341	617,613	743,417
Total Filings	116,059,700	118,362,600	120,342,400	122,546,900	124,887,100	127,097,400
Audit (Examination) Coverage Rate	1.67%	1.28%	0.99%	0.90%	0.49%	0.58%
Other Compliance Contacts						
Underreporter	1,930,326	931,354	1,726,098	1,770,695	1,353,545	1,161,901
Automated Substitute for Return (ASFR)	719,913	392,598	426,495	584,142	332,427	333,770
Math Error - Dependent TIN	0	1,300,000	1,094,635	957,597	1,270,445	1,756,646
Math Error - EITC Related	0	903,941	622,702	474,677	399,557	372,842
Math Error - All Other	4,750,771	3,780,003	3,951,569	5,120,016	4,081,460	3,953,479
Total Other Compliance Contacts	7,401,010	7,307,896	7,821,499	8,907,127	7,437,434	7,578,638
Total Examinations & Other Compliance Contacts	9,342,556	8,827,139	9,014,279	10,007,468	8,055,047	8,322,055
Combined Audit (Examination)/Compliance Contact Coverage Rate	8.05%	7.46%	7.49%	8.17%	6.45%	6.55%

Source: April 2002 IRS Report to the Congress as Requested in the House Report Accompanying the Treasury and General Government Appropriations Act, 2002, Pub.L. No. 107-67, 115 Stat 514 (2001).